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General Accounting Office
Washington, D.C. 20548

General Government Division

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March 30, 1993

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing, and Urban Affairs
United States Senate



Dear Mr. Chairman:

This letter responds to your February 1992 request that we review regulatory policy initiatives issued to address the "credit crunch," i.e., the decline in credit extended by bank and thrift institutions. The decrease in credit extension by banks began during the first quarter of 1990 and continued into the last quarter of 1992. While the causes for the credit crunch are debatable, including whether it stems primarily from a reduction in loan demand by prospective borrowers or a contraction in the supply of credit caused by tightened underwriting standards by lenders or some other factors, it is generally acknowledged as contributing to the recent recession.

We briefed the Committee throughout this review on the results of our work pertaining to the development, content, and perceived impact of the policy initiatives. This letter summarizes the information discussed with the Committee during the briefings. Information on our objectives, scope, and methodology is contained in enclosure I.

BACKGROUND

Bank and thrift regulators issue guidance for financial institution examiners and managers to enhance their (1) understanding of what constitutes safe and sound banking practices and operations, (2) compliance with banking laws and regulations, and (3) recordkeeping and financial reporting. Guidance also may be issued to implement provisions of banking laws, elaborate on how laws or regulations should be interpreted, or articulate or clarify regulatory policies and procedures.

Bank and thrift regulatory agencies--the Office of the Comptroller of the Currency (OCC) for nationally chartered banks; the Federal Reserve Board (FRB) for state-chartered

GAO/GGD-93-15R Credit Availability Guidance

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banks that are members of the Federal Reserve System and bank holding companies; the Federal Deposit Insurance Corporation (FDIC) for state-chartered nonmember banks; and the Office of Thrift Supervision (OTS) for national and state-chartered thrifts--have issued guidance through regulatory initiatives designed to assist the examiners and bank and thrift managers within their individual jurisdictions. Since the passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and continuing with the passage of the Federal Deposit Insurance Corporation Improvement Act of 1991, the bank and thrift regulators have increasingly worked together to develop regulatory initiatives for the whole financial institutions industry. These efforts are often coordinated through the Federal Financial Institutions Examination Council--an interagency body that has the authority to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by regulatory agencies. Initiatives developed through interagency efforts may be issued through the Council, jointly by the participating regulators, or separately by each individual agency.

Two major comprehensive interagency initiatives were published as joint statements on March 1 and November 7, 1991. The March 1 initiative provided clarification or expansion of existing guidance on safety and soundness issues, like the valuation of financial institutions' loan portfolios. The November 7 initiative also provided clarification of existing guidance but solely on real-estate lending issues. Both interagency initiatives were implemented to provide assurance that regulatory agencies' policies and actions were not contributing unduly to the decline in credit extended by banks and thrifts. However, these two initiatives raised concerns about whether their issuance would adversely affect the regulators' performance in promoting and ensuring safe and sound financial institution operations.

RESULTS

Much of the guidance issued by the regulators clarified existing policies relating to institutions' assets and capital requirements. By issuing the clarifying guidance, regulators worked to address concerns that the availability of credit to worthy borrowers not be affected by regulatory policies or depository institutions' misunderstandings about these policies.

The two major interagency policy initiatives for the most part clarified or expanded upon existing guidance, including that specifically related to real estate lending issues. The content and policy positions of the guidance represented the efforts and consensus of the regulators, although the initiatives were

publicly presented by the Department of the Treasury as part of the administration's economic recovery program.

While the regulators said they were satisfied with the initiatives' content, some were less receptive than others to recommendations advanced by the Treasury, such as holding the National Examiners' Conference in December 1991 and establishing an enhanced examination appeals process. However, the OTS Director endorsed the idea of the examiners' conference and, in fact, took responsibility for its organization. Regardless of the regulators' acceptance, agencies' reports showed that the Treasury's recommendations presented as part of the regulatory initiatives have not been extensively used by financial institutions. For example, few institutions had used the regulators' enhanced examination appeals processes.

Separate from the issuance of the regulatory guidance, numerous town meetings and informal public hearings were held and attended primarily by congressional representatives, regulatory officials, lenders, and borrowers. These meetings and hearings provided a forum for affected parties to air their concerns about regulators' guidance or examiners' behaviors. Regulatory agency accounts of these gatherings did not show whether the two interagency initiatives materially affected the behavior of examiners, lenders, or borrowers. Overall, the regulators we spoke with viewed as positive the issuance of such regulatory initiatives to clarify, make uniform, and communicate policy guidance to examiners as well as the industry as a whole.

Active Regulatory Environment Produced Extensive Safety and Soundness Guidance

The regulatory environment during 1991 and early 1992 was active, with the bank and thrift regulators working on an interagency basis to develop guidance for examiners and affected institutions regarding the safety and soundness of banking operations. While the guidance was usually issued separately by the individual regulatory agencies, its content was essentially the same. The purpose of such uniform guidance was to ensure the consistent treatment of safety and soundness issues by examiners across the financial institutions industry.

In working with the regulators, we identified the individual and interagency safety and soundness policy initiatives that were published or pending beginning with March 1, 1991, when the regulators publicly announced comprehensive guidance to clarify certain regulatory and accounting policies. A major focus of this comprehensive guidance was to promote an appropriate balance between adequate credit extension and the safety and soundness of financial institutions. We compiled listings of reported safety

and soundness guidance issued by the regulators during the period of March 1991 through April 1992. The guidance issued during this period covered a broad spectrum of issues, with asset- and capital-related policies being the most extensive, as shown in enclosure II.

The Development, Content, and Issuance of Comprehensive Interagency Policy Initiatives

Following discussions with regulatory officials and your staff, we focused our attention on two major interagency initiatives that were among the most comprehensive and significant. To further understand the regulatory environment during 1991 and early 1992 as well as the process used by the regulators to develop guidance for examiners, lenders, and borrowers, we concentrated on the intent, development, and issuance of these two initiatives.

The March 1, 1991, initiative dealt with a variety of safety and soundness policies. Its stated purpose was to encourage increased disclosure about the condition of financial institutions' loan portfolios, facilitate extensions of credit to worthy borrowers and the working out of problem loans, and better ensure sound assessments of the value of real estate used as collateral for loans. The November 7, 1991, initiative dealt exclusively with the review and classification of commercial real estate loans. It expanded upon the general guidance provided on real estate loan evaluations in the March initiative. The November initiative "emphasized that the evaluation of real estate loans is not based solely on the value of the collateral, but on a review of the borrower's willingness and capacity to repay and on the income-producing capacity of the properties." Its stated intent was to provide clear guidance to ensure that loans were reviewed in a consistent and balanced manner for institutions throughout the industry. (See enc. III for the March 1 and November 7, 1991, joint policy statements.)

By interviewing regulatory officials and reviewing related documents and correspondence, we identified the following key information about the development of these two major interagency initiatives:

- The interagency initiatives were perceived as being needed by both Treasury and regulatory officials on the basis of anecdotal information that some examiners may have been too harsh in their review of institutions' loan portfolios in a time of economic downturn, and their harshness may have contributed to the credit crunch.

B-248521

- Treasury officials initiated, coordinated, and facilitated the development of these interagency initiatives. Their issuance was presented by Treasury as an integral part of the administration's program for addressing the credit crunch and promoting economic recovery. (See enc. IV for the related Treasury Department press release.)
- Although Treasury officials were instrumental in facilitating the development and expediting the issuance of these interagency initiatives, the initiatives' content and the policy positions they presented came from regulatory agency officials.
- For the most part, the initiatives were viewed by the regulators as a clarification or elaboration of existing guidance, not as new policy positions.
- The March 1 initiative essentially compiled several policies and/or guidelines that were already in draft policies in one or more agencies but for various reasons had not yet been published.
- The November 7 initiative dealt exclusively with real estate lending issues, with the agencies striving for consistent treatment of like issues across the industry.

Enclosure V contains a more detailed chronology of the events that led to the development and implementation of these initiatives.

Interagency Initiatives Included Clarifications With A Couple of Provisions Raising Some Controversy

From our review of the agencies' files, it appeared that most of the policy positions contained in these two interagency initiatives were generally accepted across the agencies and the industry. However, guidance on highly leveraged transactions (HLT) and loan splitting included in the March 1 initiative was somewhat controversial.

HLTs were defined in the initiative as transactions that involve the restructuring of an ongoing business concern financed primarily with debt. The definition of an HLT has been a controversial issue between the industry and regulators and has been changed several times since its establishment in 1989. The purpose of the March 1 HLT definition was to provide a consistent means of aggregating and monitoring this type of financing transaction.

After the March 1 initiative, several explanatory documents were published as further clarification of the HLT definition. Nevertheless, regulators continued to receive numerous questions regarding the HLT definition, which had become confusing and required time-consuming interpretations. After careful consideration of comments received since the March 1 clarification, the agencies determined that the new HLT definition had largely accomplished its purpose and should be discontinued. Now, examiners are expected to identify the appropriate classification of these transactions from their reviews of loan portfolios without benefit of a standard HLT definition.

Loan splitting, or the division of a loan into performing and nonperforming portions based on collectibility, was originally suggested in late 1990 by a group of bankers in OCC's northeastern district. OCC discussed the proposal with the other regulatory agencies and the Securities and Exchange Commission. Although the proposal was mentioned in the March 1 interagency initiative, it was separately presented in proposed guidance that was issued for public comment on March 18, 1991. The proposal was very controversial.¹ The regulators intended the proposed treatment to improve financial reporting for nonperforming loans when, in effect, it raised questions of consistency with generally accepted accounting principles. The controversial proposal was withdrawn in July 1991.

Packaging and Public Presentation of the Comprehensive Initiatives

Regulatory officials advised us that they were comfortable with the development of the March 1 and November 7 interagency initiatives because they wanted to dispel the perception that examiners were contributing to a credit crunch, and they believed that more consistent treatment of real estate lending issues was important and was done without compromising the examination process. While the OTS Director was quite enthusiastic in his support of the examiners' conference, some regulatory officials were less receptive than others to the packaging and public presentation of the initiatives by Treasury, which included holding the National Examiners' Conference, establishing an enhanced examination appeals process, and certifying and randomly auditing examinations for compliance with the initiatives.

¹We were among those who took issue with the loan splitting proposal for valuing nonperforming assets, as stated in a letter to the regulatory agency heads from the Comptroller General on April 3, 1991 (GAO/OCG-91-1).

The purpose of the examiners' conference was to improve upon ongoing communication and understanding of the joint supervisory policies, and to promote uniformity among examiners through those attending the conference from all four federal regulators. The other Treasury-encouraged processes (appeals, certification, random audits) involved policies issued separately by the agencies, which were to further ensure that the interagency guidance was being fully implemented by field examiners. The regulators generally considered their communication channels and existent appeals and quality assurance programs to be sufficient to ensure that the interagency initiatives were understood and effectively implemented. Even so, they agreed to the Treasury's packaging and presentation of the initiatives because they believed that most examiners were already doing what was called for in the initiatives and that these Treasury-advocated processes would validate the examiners' positions as being appropriate.

Although little information has been reported nationally on the Treasury-encouraged processes, information obtained on the enhanced appeals processes seemed to support the regulators' belief. Our review of information reported through the regulatory agencies pertaining to the enhanced examination appeals processes showed that few appeals had been submitted by institutions and when they were, the examiners' positions had generally been sustained.² For example, OTS reported only eight enhanced appeals as of September 8, 1992. Most of the eight requests were declared ineligible; however, one did result in a depository institution getting partial recovery of a loan that had been classified as a 100-percent loss by the examiner. This decision was made following the revelation of new information, which the examiner did not have at the time of the original classification. For the two cases reported by OCC under its enhanced appeals program, one was redirected by the filing bank to the OCC district office and the other is now under review. The few reported appeals, and the even smaller number sustained, have been encouraging for the regulators. Such reports support regulatory officials' view that examiners have been following policy guidance.

²The agencies' enhanced examination appeals processes that had been implemented did not promise that appeals would be confidentially held from examiners. We took issue with the inclusion of a confidentiality provision that was discussed among the regulators during the examiners' conference. We raised our concern in testimony, Bank Supervision: Observations on the National Bank and Thrift Examiners' Conference (GAO/T-GGD-92-10, Jan. 3, 1992), before the House Committee on Banking, Finance and Urban Affairs.

Despite the enhanced examination appeals process, complaints continued to be made by lenders and borrowers about examiners adversely impacting the lending environment. A forum for airing such complaints was provided through more than 200 town meetings and informal hearings hosted throughout the country by congressional representatives with participation by regulatory and Treasury officials. Some complainants suggested that they were reluctant to file an appeal in fear of recriminations from examiners. In response to continuing complaints on September 1, 1992, Treasury called for more town meetings to be convened by OCC and OTS agency heads and suggested that FDIC and FRB officials be encouraged to participate. Additional town meetings have since been held.

Perceived Impact of the Interagency Initiatives on Examiners, Lenders, and Borrowers

We obtained some perspective on the anticipated impact of the initiatives on examiners, lenders, and borrowers, by reviewing reports of town meetings and asking regulators questions about the initiatives.

The purpose of the town meetings was, among other things, to better ensure effective communication of the guidance-- particularly those policy positions dealing with real estate valuation--and to learn of the primary concerns of lenders and borrowers. Aside from regulatory and congressional representatives, most of the participants at these meetings were home builders, real estate developers, bankers, and owners of small businesses. The participants quite clearly believed that credit availability was restricted or nonexistent; however, there was some variance in opinion as to what caused the problem. Some blamed the regulators while others offered other reasons. A participating regulatory official expressed the views of some regulators when he suggested that the meetings provided a forum for airing complaints and clarifying guidance; he also said that little was accomplished in terms of reaching solutions. More information on perceptions about the initiatives from the town meetings and public hearings is contained in table VI.1.

Overall, the regulators' responses to our questions showed that they believed their coordination efforts had been positive, although they had no quantifiable evidence of the impact on examiners, lenders, and borrowers. In the regulators' view, the clarified guidance would result in more consistent examinations, particularly involving the valuation of real estate loans, along with enhanced safety and soundness practices among financial institutions whose managers should now be more cognizant about examiners' positions on issues like loan quality and capital requirements. To illustrate, one regulatory official suggested

B-248521

that perhaps lenders would experience an enhanced level of comfort in refinancing loans or rolling over loans. Ultimately, regulatory officials believed the clarification of guidance advocating a balanced approach in examination procedures should help the lender in meeting the credit needs of sound borrowers. See table VI.2 for more information on the guidelines' anticipated effect on examiners, lenders, and borrowers.

AGENCY COMMENTS

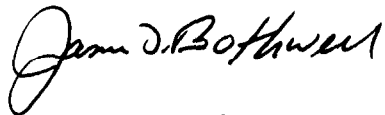
We provided a draft of this letter to agency officials, who generally agreed with the information presented, and we incorporated their comments where appropriate.

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As arranged with the Committee, we are sending copies of this letter to the Secretary of the Treasury, the Acting Chairman of FDIC, the Chairman of the Board of Governors of the Federal Reserve System, the Acting Comptroller of the Currency, and the Acting Director of OTS. Copies will be available to others upon request.

The major contributors to this letter are listed in enclosure VII. If you have any questions, please contact me on (202) 512-8678 or Mark J. Gillen, Assistant Director, on (202) 898-7196.

Sincerely yours,



James L. Bothwell
Director, Financial Institutions
and Markets Issues

C O N T E N T S

	<u>Page</u>
LETTER	1
ENCLOSURES	
I OBJECTIVES, SCOPE, AND METHODOLOGY	12
II REGULATORY POLICY GUIDANCE RELATED TO THE SAFETY AND SOUNDNESS OF FINANCIAL INSTITUTIONS, BY REGULATORY AGENCY AND SUBJECT	14
III COMPREHENSIVE INTERAGENCY POLICY STATEMENTS AIMED AT STIMULATING LENDING BY DEPOSITORY INSTITUTIONS	112
IV ADMINISTRATION ACTIONS TO EASE THE CREDIT CRUNCH AND PROMOTE ECONOMIC GROWTH	155
V KEY EVENTS IN THE DEVELOPMENT OF REGULATORY INITIATIVES IN CONJUNCTION WITH THE ADMINISTRATION'S ECONOMIC RECOVERY PROGRAM	163
VI PERCEPTIONS OF THE EFFECT OF CREDIT CRUNCH ISSUES AND ANTICIPATED BEHAVIOR OF INDUSTRY PLAYERS	166
VII MAJOR CONTRIBUTORS TO THIS REPORT	178
TABLES	
II.1 Joint Regulatory Policy Guidance Related to the Safety and Soundness of Financial Institutions, March 1991 Through April 1992	15
II.2 Regulatory Guidance Related to Safety and Soundness Policies for Banks Supervised by FDIC, March 1991 Through April 1992	18
II.3 Regulatory Guidance Related to Safety and Soundness Policies for Banks Supervised by FRB, March 1991 Through April 1992	27
II.4 Regulatory Guidance Related to Safety and Soundness Policies for Banks Supervised by OCC, March 1991 Through April 1992	48

II.5	Regulatory Guidance Related to Safety and Soundness Policies for Thrift Institutions Supervised by OTS, March 1991 Through April 1992	60
II.6	Regulatory Policy Guidance Related to the Safety and Soundness of Financial Institutions, by Regulator and Selected Subject, March 1991 Through April 1992	71
VI.1	Perceived Impact of the Credit Crunch by Participants at Town Meetings/Hearings, July 1991 Through April 1992	167
VI.2	Regulators' Perceptions of the Anticipated Impact of Policy Guidance on Examiners, Lenders, and Borrowers	174

ABBREVIATIONS

ALLL	allowance for loan and lease losses
BHC	bank holding company
CAEL	capital adequacy, asset quality, earnings, and liquidity
CAMEL	capital adequacy, asset quality, management, earnings, and liquidity
EDP	electronic data processing
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FFIEC	Federal Financial Institutions Examination Council
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989
FRB	Federal Reserve Board
GAAP	generally accepted accounting principles
HLTs	highly leveraged transactions
IRS	Internal Revenue Service
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OTS	Office of Thrift Supervision
PCCR	purchased credit card relationships
RESPA	Real Estate Settlement and Procedures Act
RTC	Resolution Trust Corporation
SEC	Securities and Exchange Commission

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to provide information on the (1) regulatory guidance relative to the safety and soundness of bank and thrift operations during the recent recession; (2) development, content, and presentation of the two comprehensive interagency initiatives issued by regulators during this period; and (3) impact of these two interagency initiatives on the behaviors of examiners, lenders, and borrowers.

To accomplish our objectives, we did work at the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), and the Department of the Treasury. Our work covered safety and soundness policy initiatives reported to us by the bank and thrift regulatory agencies, which were issued or under development during the time period of March 1991 through April 1992. Our work at the Treasury focused on its efforts to coordinate or facilitate the issuance of the March 1 and November 7, 1991, comprehensive interagency policy initiatives, which were aimed at clarifying certain regulatory and accounting policies in an effort to address credit availability problems.

We solicited safety and soundness policy initiatives from the regulators and compiled the reported issuances by agency and chronology. On the basis of additional information and discussions with agency officials, we updated the compilation as needed for completeness and accuracy and further analyzed the initiatives by categorizing them according to CAMEL components (i.e., capital adequacy, asset quality, management, earnings, and liquidity--which are used by the agencies to measure the relative safety and soundness of banks). Also, we prepared matrices of the initiatives by selected subjects (credit availability, capital, assets, and earnings) to facilitate comparison. From this broad compilation, we narrowed the focus of our review to include the two most comprehensive initiatives issued by the regulators, which relate to many of the issues of concern about credit availability.

We reviewed agency files and periodically met with regulatory officials to obtain an understanding of the work that was involved in the origination, development, and implementation of the March 1 and November 7, 1991, initiatives. Also, we provided questions to the four regulators concerning the development and effect of the initiatives' policy positions and asked that officials respond orally or in writing. Through oral information provided by OTS officials and written responses from OCC, FDIC, and FRB, we obtained regulators' official views on the anticipated effect of the initiatives on the behavior of

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examiners, lenders, and borrowers. We did not however, review examination cases to ensure understanding of or compliance with the policy initiatives.

Additionally, from a review of written summaries of regional town meetings and hearings, we learned of perceptions about the credit crunch and certain concerns about some of the guidance. Further, we reviewed news articles and public statements of representatives of several trade and professional organizations to obtain some perspective on how the interagency policy issues were perceived by the financial institutions industry.

We did our work in Washington, D.C., between March 1992 and October 1992 in accordance with generally accepted government auditing standards.

REGULATORY POLICY GUIDANCE RELATED TO THE SAFETY
AND SOUNDNESS OF FINANCIAL INSTITUTIONS,
BY REGULATORY AGENCY AND SUBJECT

We compiled regulatory policy guidance related to the safety and soundness of financial institutions, by regulatory agency and subject. In compiling these initiatives, we began with March 1, 1991, when the regulators publicly announced their joint statement, which included guidance to clarify certain regulatory and accounting policies. Officials from the four federal bank and thrift regulatory agencies agreed that a compilation of safety and soundness guidance issued, beginning with the March 1, 1991, joint interagency policy statement, would provide a reasonable basis for understanding the regulatory environment during the economic downturn of the early 1990s.

Tables II.1 to II.5 compile interagency and individual policy initiatives listed by regulatory agency and subject. Also, to facilitate comparison across the agencies, table II.6 presents the policy initiatives by selected subject.

Table II.1: Joint Regulatory Policy Guidance Related to the Safety and Soundness of Financial Institutions, March 1991 Through April 1992

Agency	Date	Title	Purpose/Description
General			
Credit availability			
OCC, FDIC, FRB, OTS	03-01-91	Joint Statement on Supervisory Policies ^a	Guidance was designed to contribute to a climate in which banks and thrifts make loans to creditworthy borrowers and work constructively with borrowers experiencing financial difficulties, consistent with safe and sound banking practices. Included guidelines to clarify regulatory and accounting policies pertaining to such issues as (1) recognition of income for certain nonperforming loans, (2) valuation of real estate loans in exams, and (3) guidance on other issues relating to nonaccrual assets and formally restructured debt.
OCC, FDIC, FRB, OTS	12-16-91 through 12-17-91	National Examiners' Conference	Convened to review and discuss the interagency policy statement on the review and classification of commercial real estate loans (11-07-91) and to communicate other initiatives and policies related to credit availability with senior examiners of the four regulatory agencies.
Assets			
Real estate			
OCC, FDIC, FRB, OTS	11-07-91	Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans ^a	Intent was to provide clear and comprehensive guidance to enable supervisory personnel to review loans in a consistent, prudent, and balanced manner and to make all interested parties aware of the guidance. Guidelines (which expand on the March 1 statement) cover loan portfolio review procedures, indicators of troubled loans, analysis of loans and collateral values, and the review of institutions' loss allowances.
Nonaccrual			
FFIEC ^b Applies to FDIC, FRB, OCC, OTS	03-18-91	Reporting Standard Concerning the Return of a Loan With a Partial Charge-Off to Accrual Status	Request for comments on a proposal to establish criteria under which depository institutions, for purposes of the Call Reports, may return nonaccrual loans with partial charge-offs of principal to accrual status without first recovering the partial charge-off or becoming fully current in accordance with the contractual loan terms. (Also referred to as "loan splitting.")

Agency	Date	Title	Purpose/Description
FFIEC Applies to FDIC, FRB, OCC, OTS	08-05-91	Withdrawal of Proposal on Returning Certain Nonaccrual Loans to Accrual Status	In response to comments received and other considerations, FFIEC decided that its proposal relating to nonaccrual loans should be withdrawn. (See 03-18-91 issuance.)
Appraisals			
FFIEC Applies to FDIC, FRB, OCC, OTS	04-26-91	Extension of Deadline for Use of Certified or Licensed Appraisers in Federally Related Transactions	Notice extended to December 31, 1991, the effective date when federally regulated depository institutions must use state-certified or -licensed appraisers for appraisals in connection with most real estate-related financial transactions pursuant to Title XI of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and applicable rules and regulations. Extension was to facilitate an orderly, nationwide implementation of the requirement by the specified date.
FFIEC Applies to FDIC, FRB, OCC, OTS	06-06-91	Revised Guidelines Regarding State Certification and Licensing of Appraisers	Guidelines were intended to assist the states in establishing effective certification and licensing procedures for real estate appraisers involved in federally related transactions. Certified or licensed appraisers must be used for certain transactions starting January 1, 1992.
FFIEC Applies to FDIC, FRB, OCC, OTS, NCUA	12-20-91	Use of Certified or Licensed Real Estate Appraisers	The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 postponed (from Dec. 31, 1991, to Dec. 31, 1992) the date when federally regulated depository institutions must use state-certified or -licensed appraisers in connection with certain real estate transactions. (Extension provided to help facilitate an orderly, nationwide implementation of FIRREA by giving the states additional time to implement their appraiser qualification standards.)
Debt securities/Securities			
FFIEC Applies to FDIC, FRB, OTS, OCC, NCUA	08-02-91	Supervisory Policy Statement on Securities Activities	Request for additional public comment on Section III of the proposed Supervisory Policy Statement that was initially published for comment on January 3, 1991. As proposed on Aug. 2, Section III defined "high-risk mortgage securities" in a specific quantitative manner and specified that such securities were not suitable investment portfolio holdings for depository institutions. Also, other aspects of Section III were changed from the January proposal.

Agency	Date	Title	Purpose/Description
FFIEC Applies to FDIC, FRB, OCC	01-17-92	Revised Policy Statement on Securities Activities	Policy includes expanded guidance on the suitability of acquiring and holding high-risk mortgage securities and zero-coupon bonds. It also outlines analyses and documentation required of depository institutions that purchase and retain these securities.
Miscellaneous			
FDIC, FRB, OCC	03-15-91	Guidance on Highly Leveraged Transactions (HLT)	In response to frequently asked questions from examiners and others, this jointly adopted guidance was provided to assist in the consistent application of the HLT definition.
FDIC, FRB, OCC	07-10-91	The Supervisory Definition of Highly Leveraged Transactions	Joint request seeking public comment on all aspects of the HLT definition and criteria as well as comments on specific issues raised by questions that the agencies have received.
OCC, FDIC, FRB	02-11-92	Modification of the Supervisory Definition of Highly Leveraged Transactions	This notice discontinued (after June 30, 1992) (1) the supervisory definition of HLTs and (2) the reporting of HLT exposure by banking organizations regulated by the three agencies. Pending completion of the phaseout, the definition and the requirement for banks to report their HLT exposure will continue, with certain modifications to the previous definitions.
Definition/Components			
FFIEC Applies to FDIC, FRB, OCC	02-11-92	Bank Reports and Capital Guidelines	To obtain comments on a proposed change in the definition of loans "secured by one-to-four-family residential properties" as that term is used for reporting loans in the Call Reports filed quarterly by insured commercial and FDIC-supervised savings banks. Definition would be revised to include certain loans to builders for the construction of one-to-four-family residences that have been presold to home purchasers and meet certain other prudential criteria.

Note: This table contains guidance provided by regulators that covers jointly issued or interagency regulatory policy initiatives. Guidance may also appear in the table by individual agency.

^aOne of two major comprehensive interagency policy statements discussed in the report.

^bThe Federal Financial Institutions Examination Council (FFIEC) was created as an interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the regulatory agencies (including the National Credit Union Administration), and to make recommendations to promote uniformity in the supervision of financial institutions.

Table II.2: Regulatory Guidance Related to Safety and Soundness Policies for Banks Supervised by FDIC, March 1991 Through April 1992

Date	Title/Number	Purpose/Description
Capital		
03-18-91	Revisions to Leverage Capital Standards, FIL-12-91	Provided copy of final rule which was intended to make the definition of capital under the leverage requirements more consistent with risk-based capital guidelines that became effective at the end of 1990. The revised rule combined a more narrow definition of capital with a lower minimum acceptable ratio of capital to assets; it was consistent with measures adopted by other federal regulatory agencies.
04-03-91	Disallowing the Use of Bankruptcy to Evade Commitment to Maintain the Capital of a Federally Insured Depository Institution, #91-047	Provided information and guidance on the stated subject, which covers the new authority included in the Crime Control Act of 1990. Section 2522(c) of the Crime Control Act of 1990 amends the Bankruptcy Code to require that, in Chapter 11 bankruptcy cases (i.e., those in which a debtor company seeks to reorganize its debt), the trustee shall seek to immediately cure any deficit under any commitment by a debtor to maintain the capital of an insured depository institution.
05-08-91	Revisions to the Report of Examination, #91-072	Provided revised pages and instructions to the report of examination relating to recent changes in Part 325 of the FDIC Rules and Regulations, which changes the leverage capital standard and adopts risk-based capital guidelines.
05-21-91	Basle Committee on Banking Supervision Paper on Measuring and Controlling Large Credit Exposures, #91-077	Provided a copy of the subject paper for informational purposes to each FDIC field office and to each state within an FDIC region.
06-18-91	Capital Provisions in Enforcement Actions, #91-093	Discussed changes in "leverage" capital requirements and provided revised language for capital provisions in enforcement actions.
07-12-91	Revisions to Core Page 3-- Analysis of Capital, #91-107	Provided clarification and additional guidance on several items that should be included as part of the instructions for the Core Page 3 of the bank examination manual--Analysis of Capital. (For policy guidance on subjects closely related to the analysis of capital, refer to #91-072, Revisions to the Report of Examination, May 8, 1991; #91-071, Allowance for Loan and Lease Losses, May 7, 1991; and #91-082, ALLL, June 4, 1991.)

Date	Title/Number	Purpose/Description
04-09-92	Proposal to Revise the Capital Treatment of Intangible Assets, FIL-28-92	Provided copy of proposed rule which revised the treatment of intangible assets under FDIC's capital maintenance regulation. As proposed, limited amounts of purchased mortgage servicing rights and purchased credit card relationships would be recognized for purposes of calculating Tier 1 capital under FDIC's leverage capital and risk-based capital standards.
04-10-92	Proposal to Implement Preferential Capital Treatment for Certain Multifamily Housing Loans and Collateralized Securities, FIL-29-92	Provided copy of proposed rule which was to amend risk-based capital guidelines to provide for the assignment of loans secured by multifamily residential properties ("multifamily housing loans") that meet certain prudential criteria to the 50-percent risk weight category. Prior to the proposal, such loans are assigned to the 100-percent risk weight category.
Assets		
03-08-91	New Financial Statement Disclosures About Debt Securities Held as Assets, #91-041	Distributed copies of the American Institute of Certified Public Accountants' Statement of Position 90-11--"Disclosure of Certain Information by Financial Institutions About Debt Securities Held as Assets."
04-17-91	Amortization of Discounts on Certain Acquired Loans and Debt Securities, #91-057	Provided guidance to examiners concerning the amortization of discounts on certain acquired loans and debt securities. This guidance reflects the views of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants as expressed in its August 1989 Practice Bulletin No. 6, "Amortization of Discounts on Certain Acquired Loans."
04-18-91	Real Estate Loan Standards Could Ease Credit Crunch, PR-58-91	In a speech, the FDIC Chairman cited a lack of clear standards for real estate lending as a contributing cause to the credit crunch situation. He urged banking and real estate industry trade groups to work with regulators in developing unambiguous lending standards that could serve the dual purpose of preventing losses and freeing up credit.
05-03-91	Monitoring of Banks With Exceptional Growth and/or High Concentration Levels in the Commercial Real Estate Portfolio, #91-066	Requested comments and recommendations regarding a prototype monitoring tool, developed by the Analysis and Monitoring Section, for identifying banks exhibiting significant concentrations and growth in commercial real estate lending.

Date	Title/Number	Purpose/Description
05-17-91	Municipal Bonds Supported by Guaranteed Investment Contracts Issued by Executive Life Insurance Co., #91-076	Updated the Jan. 24, 1991, memo to regional directors concerning the subject securities. (Referred to #91-010, which stated that examiners should request financial institutions holding municipal bonds that are fully, or materially, supported by guaranteed investment contracts issued by Executive Life Insurance Company to charge off or provide for an allowance for losses of 50% of the doubtful classifications. These bonds were also to be put in nonaccrual status.)
06-04-91	Allowance for Loan and Lease Losses, #91-082	Guidance provided a worksheet for examiners (1) to use in reviewing the adequacy of an institution's allowance for loan and lease losses (ALLL) and (2) to serve as documentation supporting the level for the institution's ALLL recommended by the examiner. Also, it provided documentation for future examination planning and might be useful in preparing for enforcement proceedings.
06-17-91	Refinancing Commercial Real Estate, #91-092	Provided guidance to examiners regarding refinancing of medium term commercial real estate loans. Established policy guidance that financial institutions, whether they have a concentration in real estate or not, can choose to refinance a sound mini-perm (5- to 7-year) real estate development loan without being automatically criticized for doing so.
06-18-91	Allowance for Loan and Lease Losses, #91-093B	Provided a revised page 5 for transmittal #91-071 dated May 7, 1991--Allowance for Loan and Lease Losses (and shown in this table as Guidance on Adequacy of Allowance for Loan and Lease Losses, FIL-34-91, dated June 28, 1991). The revision clarified guidance that, when determining allocations for the ALLL, a loan should either be reviewed individually or as part of a pool, but not both.
06-28-91	Guidance on Adequacy of Allowance for Loan and Lease Losses, FIL-34-91	Provided guidance to examiners regarding the examination of the adequacy of the ALLL and a discussion paper on the applicable accounting literature (addressing the adequacy of the ALLL for banks and thrifts).
07-08-91	Real Estate Appraiser Regulations, #91-104	Distributed questions and answers about Title XI of FIRREA, which were prepared by the Appraisal Subcommittee of FFIEC. The commentary information was intended to help state appraiser regulatory agencies and others in understanding some of the positions and interpretations of the Subcommittee.
07-29-91	Real Estate Loans and Nonaccrual Loans, #91-120	Transmitted the Federal Reserve's memo on examination guidelines on real estate loans and reporting issues pertaining to nonaccrual loans--SR 91-16 (FIS), July 16, 1991. The guidance, which represented FRB's supplement to the March 1, 1991, interagency statement on the same subject matter, was sent to FDIC regional staff for informational purposes.

Date	Title/Number	Purpose/Description
09-05-91	Nonaccrual Loans and Other Troubled Loans, #91-136	Distributed copies of (1) FFIEC's notice announcing the withdrawal of the proposed reporting standard for the return of a partially charged off nonaccrual loan to accrual status and (2) OCC's BC-255, which contained supervisory and reporting guidance on certain troubled loan issues.
09-20-91	Proposed Amendments to Appraisal Regulations, FIL-48-91	Provided copy of proposed amendments. If adopted, the amendments would decrease the number of transactions requiring an appraisal prepared by a certified or licensed appraiser, thereby reducing the costs of these transactions. The proposed amendments would (1) raise the threshold to \$100,000 from \$50,000 for transactions covered by the regulation, (2) permit the use of appraisals made for loans insured or guaranteed by an agency of the federal government, and (3) clarify that the appraisal requirements do not apply to mineral rights, timber rights, or growing crops.
11-01-91	Monitoring of High Growth and/or High Concentration Levels of Commercial Real Estate Loans, #91-157-B	Guidance transmitted lists of banks that reflected high commercial real estate loan growth and/or that had potentially excessive concentration levels of commercial real estate loans based on Call Report data through June 30, 1991, and it provided advice on the development status of a new on-line procedure that was to generate such reports by using FDIC's mainframe computer.
11-01-91	Appraisal Regulation, #91-158	Transmitted a manual that gave the regional offices a central reference for material relating to appraisal law and regulations that originated from Title XI of FIRREA.
11-07-91	Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans, PR-168-91, FIL-54-91 ^a	Policy provided clear and comprehensive guidance to enable supervisory personnel to review loans in a consistent, prudent, and balanced manner and to make all interested parties aware of the guidance. Guidelines (which expand on the March 1 statement) cover loan portfolio review procedures, indicators of troubled loans, analysis of loans and collateral values, and the review of institutions' loss allowances.
11-19-91	Audit and Review Program for Real Estate Appraisal Evaluations, #91-167	Guidance (1) established a program for audits of appraisal evaluations and any adjustments made to them in connection with the assessment of a financial institution's asset quality and (2) instructed examiners to prepare separate memos detailing situations encountered in banks where a significant number of appraisals are deficient in quality or are unreasonably conservative or liberal.

Date	Title/Number	Purpose/Description
01-13-92	Extension of Deadline For Use of Certified or Licensed Real Estate Appraisers, FIL-4-92	Provided copy of FFIEC Appraisal Subcommittee advisory related to FIRREA appraisal requirements. FDICIA postponed (from Dec. 31, 1991, to Dec. 31, 1992) the date when federally regulated depository institutions must use state-certified or -licensed appraisers in connection with certain real estate transactions. (Extension provided to help facilitate an orderly, nationwide implementation of FIRREA by giving the states additional time to implement their appraiser qualification standards.)
02-13-92	FDIC Clarifies Liquidation and Supervision Policies, PR-21-92	Clarified liquidation and supervision policies used by FDIC for handling performing loans that become receivership assets as a result of the failure of an insured bank.
02-18-92	Interagency Modification of the Supervisory Definition of Highly Leveraged Transactions, FIL-14-92	In July 1991, the three bank regulatory agencies issued a request for public comment on whether and how to revise the supervisory definition of HLTs. In response to comments received, the three agencies made plans to phase out the HLT definition and discontinue reporting of HLTs by bank organizations after June 30, 1992. (See table II.1, "Miscellaneous," 02-11-92.)
03-10-92	Final Real Estate Appraisal Rules, PR-37-92	Announcement of approved amendments to real estate appraisal regulations that will reduce the number of real estate transactions requiring an appraisal by a certified or licensed appraiser, thereby reducing the costs of the loans to FDIC-supervised banks and to borrowers. (See FIL-48-91 dated Sept. 20, 1991.)
Management		
04-09-91	Possible Safeguards Against Adverse Contracts, FIL-16-91	Provided copy of proposed rule issued by FDIC intended to prevent any depository institution insured by FDIC from contracting for goods, products, or services in a way that would adversely affect its safety and soundness.
05-30-91	Directors' and Officers' Liability and Fidelity Bond Insurance in Failing Banks, #91-079	Guidance clarified responsibilities for preserving possible claims under directors and officers and fidelity bond insurance in failing banks.
08-15-91	Proposed Rule on Insider Transactions, FIL-43-91	Provided copy of proposed rule related to insider transactions. Purpose was to establish certain requirements designed to ensure that business dealings between insured nonmember banks and the banks' insiders are conducted in the arm's length fashion necessary to promote safe and sound banking, including adequate review and control by the banks' boards of directors. Proposed rule would provide additional safeguards against abuses in business dealings other than extensions of credit. These include preferential sales, leases, commissions, fees, and deposit interest rates.

Date	Title/Number	Purpose/Description
10-18-91	Proposed Limits on Golden Parachutes, Other Director and Employee Payments Subject to Misuse, FIL-51-91	Provided copy of proposed rule intended to prevent the improper disposition of institution assets and to protect the financial soundness of insured depository institutions, depository institution holding companies, their subsidiaries and affiliates, and the federal deposit insurance funds. Proposal was to stop abuses in two basic areas: (1) large cash payment to an executive officer when that individual resigns (gold parachute arrangement) and (2) reimbursements or up-front payments for liabilities or legal expenses of an officer, director, or employee incurred in connection with an administrative or civil enforcement action.
03-03-92	Lending Limits Section 22(h), Federal Reserve Act, FIL-17-92	Provided copy of proposed rule which would amend Regulation O (rules governing loans to bank officers, directors, principal shareholders, and their related interests). The amendments, which implemented Section 306 of FDICIA, tightened previous statutory limits on extensions of credit to bank insiders. This guidance informed FDIC-supervised banks that final rule changes, when adopted, would also apply to state nonmember banks as a result of Section 18(j)(2) of the Federal Deposit Insurance Act and Section 337.3 of FDIC's rules and regulations.
03-10-92	Loans to Executive Officers, Section 22(g), Federal Reserve Act, FIL-18-92	Provided copy of final rule which amended FDIC regulations limiting extensions of credit by insured nonmember banks to their executive officers. The amendment conformed FDIC's regulations to recent statutory changes that brought loans by insured nonmember banks to their executive officers within the restrictions of Section 22(g) of the Federal Reserve Act.
Liquidity		
01-09-92	New Limits on Brokered Deposits, FIL-3-92	Provided guidance to all insured banks and savings associations related to section 301 of FDICIA, which significantly limited the use of brokered deposits by insured depository institutions. The new law amended Section 29 and added a new Section 29A to the Federal Deposit Insurance Act. FDIC was required to promulgate final regulations to carry out Section 301. However, insured depository institutions were instructed to continue to comply with current regulations until the effective date of the new regulations.

Date	Title/Number	Purpose/Description
General		
03-01-91	Joint Statement on Supervisory Policies, PR 30-91: FIL 8-91 ^a	Guidance was designed to contribute to a climate in which banks and thrifts make loans to creditworthy borrowers and work constructively with borrowers experiencing financial difficulties, consistent with safe and sound banking practices. Included guidelines to clarify regulatory and accounting policies pertaining to such issues as (1) recognition of income for certain nonperforming loans, (2) valuation of real estate loans in exams, and (3) guidance on other issues relating to nonaccrual assets and formally restructured debt.
04-22-91	Problem Memoranda (Forms 6620/10 and 6620/11), #91-063	Reminded the examination staff of the need to maintain high-quality production standards in the creation of "problem bank" memoranda, which provided a means of communicating conditions and regulatory strategies with respect to weakened institutions to the most senior levels of FDIC.
05-15-91	Restrictions on S&Ls Converting to Banks, FIL-25-91	Provided copy of final rule which required federally insured savings and loans that convert to bank charters to continue adhering to restrictions on high-risk activities. Adopted rule addressed FDIC's concern that under state law, a savings association that undergoes a "charter flip" could escape safeguards Congress imposed to protect the Savings Association Insurance Fund from losses caused by high-risk investments.
07-22-91	FDIC Examiner Participation in Exams of National and State Member Banks, #91-115	Memo transmitted senior staff agreement with OCC and FRB concerning FDIC examiner participation in exams of national and state member banks. The agreement addressed exam guidelines designed to facilitate FDIC needs and ensure a spirit of cooperation among examiners.
08-29-91	Regional Credit Crunch Meetings, #91-131	Provided guidance for responding to requests for FDIC participation in credit crunch meetings, which were sponsored by Members of Congress.
08-30-91	Alternative Procedures to Recommend Action Under Sections 8(a) or 8(t) of the Federal Deposit Insurance Act Against Savings and Loans, #91-132	Guidance established procedures to facilitate the recommendation of enforcement actions against savings associations. Guidance provided that the process can be expedited by (1) including the enforcement action in a separately captioned part of the problem institution memo entitled "Recommended Enforcement Action and Proposed Contents" and (2) limiting contents of recommended action to provisions needed to address primary deficiencies.
09-09-91	Examination of National Data Processing Companies, #91-139	Identified large data processing companies that would be subject to a national exam from 1992 through March 1993. Schedule was established by the Electronic Data Processing Subcommittee of the FFIEC Task Force on Supervision.

Date	Title/Number	Purpose/Description
09-10-91	FDIC Savings Association Supervisory Responsibilities, #91-140	Distributed questionnaire that was designed to ensure that proper attention is directed to the specific supervisory responsibilities over certain savings association activities placed with FDIC by enactment of FIRREA.
09-12-91	Nonbank Data Processing Services, #91-142	Identified nonbank data processing servicers and examinations for conversion to the new on-line examination tracking system currently being developed.
10-01-91	Electronic Data Processing Risks in Mergers and Acquisitions, #91-145	Distributed the FFIEC paper relating to the electronic data processing (EDP) risks in mergers and acquisitions, which was recently approved by the Task Force on Supervision. Guidance provided that recommendations contained in the paper be implemented in association with mergers and acquisitions involving conversions of information systems.
11-22-91	Regular Communication With Bankers on Exam Standards and Practices, #91-169	Updated the Division of Supervision's documentation procedures for communicating with bankers and reiterated currently outstanding instructions in this area. This guidance was in line with one aspect of the program announced by the Secretary of the Treasury on Oct. 8, 1991, which requested the four regulatory agencies to develop a method for regular communication with bankers to determine their views on the fairness and balance of exam standards and practices.
12-05-91	Regional Credit Crunch Meetings, #91-173	Revised existing instructions on expected regional office attendance at regional credit crunch meetings. (Changed guidance provided in #91-131 dated Aug. 29, 1991.) Regional directors now have discretion as to the appropriate representation at such meetings; however, in making selections, they should consider the general level of comparability with the representatives of the other banking agencies attending as well as the visibility of the meeting.
12-23-91	Improved Communication of Supervisory Policies, #91-184	Established examination and regional office procedures to ensure that recent policy statements regarding the supervisory impact on sound credit availability are adequately communicated to examiners and bankers. (Statements include <u>Joint Statement on Supervisory Policies</u> (03-01-91), the <u>Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans</u> (11-07-91), and <u>Refinancing Commercial Real Estate</u> (06-17-91).
02-07-92	Procedures for Requesting Review of Supervisory Decisions, FIL-11-92	Policy established a third process for institutions desiring a review of supervisory decisions to request a review by written submission to the Division of Supervision Director in Washington. (Note: The other two procedures involved a request to the on-site examiner or the regional office Division of Supervision.)

Date	Title/Number	Purpose/Description
03-04-92	Off-Site Review Program for Large Insured Depository Institutions, #92-039	Replaced the Large Bank Analysis Program with the Off-Site Review Program for Large Insured Depository Institutions. The new program's four-part objective is to (1) use information technology, advanced analytical techniques, and optimal human resources; (2) screen all insured institutions quarterly; (3) identify and prioritize those that require further (usually on-site) supervisory attention; and (4) avert and control risk to the deposit insurance fund.
03-19-92	Shared Application Software Reviews, #92-045	Transmitted copies of two shared application software reviews, which were done during the second half of 1991. The program, which was approved by FFIEC's Supervision Task Force, provides for interagency review of widely used shared computer application software.
03-23-92	Growth Monitoring System Off-Site Review Program, #92-047	Memo restated existing Growth Monitoring System off-site review procedures and added requirements for the documentation, the tracking of recommended supervisory action, and the summarization of results. In general, changes are to ensure that off-site monitoring resources are optimally used to fulfill FDIC's supervisory and insurance responsibilities.
03-23-92	CAEL Off-Site Review Program, #92-048	Guidance was designed to revise and strengthen the CAEL Off-Site Review Program to ensure that the benefits derived from off-site reviews are realized more broadly and that program effectiveness is enhanced. Regions are required to track review results and follow-up action on CAEL-listed banks. (Note: CAEL, which refers to <u>c</u> apital adequacy, <u>a</u> sset quality, <u>e</u> arnings, and <u>l</u> iquidity, is a supervisory tool that uses off-site data to monitor commercial banks between examinations.)
03-23-92	Bimonthly Status Reports on Communication of Various Supervisory Policies to Bankers, #92-049	Reiterated to regional personnel the importance of communicating supervisory policies to bankers and of keeping adequate records on those communications. (See memos 91-169 dated Nov. 22, 1991, and 91-184 dated Dec. 23, 1991.) Also, this guidance established a bimonthly reporting system to the Washington Office summarizing actions taken in these areas.

*One of two major comprehensive interagency policy statements discussed in the report.

Table II.3: Regulatory Guidance Related to Safety and Soundness Policies for Banks Supervised by FRB, March 1991 Through April 1992

Date	Title/Number	Purpose/Description
Capital		
03-01-91	Asset Quality Ratings for CAMEL Purposes Under the Tier 1 Capital Definition, SR Letter 91-7 (FIS)	Provided guidelines on the calculations for the revised asset quality ratio and included the substitution of risk-based capital components as a replacement for primary and total capital.
04-24-91	Field Testing of Revised Pages of the Examination and Inspection Reports Incorporating the New Risk-Based Capital Measures, AD Letter 91-25 (FIS)	Transmitted revised examination report pages that implement changes as a result of the adoption of new risk-based capital guidelines.
07-26-91	Analysis of Risk-Based Capital for the 50 Largest Bank Holding Companies (BHCs), AD Letter 91-49 (FIS)	Transmitted a set of statements to Federal Reserve Banks showing the components of the risk-based capital statistics for each bank holding company in their district that ranks among the nation's 50 largest.
10-31-91	Risk-Based Capital	Requested comment on the inclusion in Tier 1 risk-based capital of perpetual preferred stock meeting certain terms and conditions.
01-14-92	Perpetual Preferred Stock for Risk-Based Capital Purposes	Approved proposal to lift the limit on the amount of noncumulative perpetual preferred stock that BHCs may include in Tier 1 capital for the purpose of calculating their risk-based and leverage capital ratios. Cumulative perpetual preferred stock will continue to be included in Tier 1 capital for BHCs, up to a limit of 25 percent of Tier 1 capital.
02-19-92	Regulatory Capital Treatment of Identifiable Intangible Assets	Request for comment on a proposal regarding revision of the risk-based capital standards allowing the inclusion of certain intangibles in the risk-based capital calculation. Under the proposal, purchased mortgage servicing rights and purchased credit card relationships (PCCR) would be included in the Tier 1 capital computation provided that, in the aggregate, they do not exceed a limit of 50 percent of Tier 1 capital and provided that PCCRs do not exceed a sublimit of 25 percent of Tier 1 capital.
04-10-92	Risk-Based Capital	Requested comments on proposed revision regarding the risk weighing of certain multifamily mortgages and certain collateralized obligations.

Date	Title/Number	Purpose/Description
Assets		
03-28-91	Shared National Credit Program for 1991, AD Letter 91-19 (FIS)	Announced that the Shared National Credit Program's on-site examination phase was about to commence. The AD Letter enclosed necessary reporting forms and a suggested draft transmittal letter for use in forwarding the reporting forms to all BHCs, state member banks, and state-licensed branches and agencies of foreign banks that reported shared national credit information in response to the Federal Reserve's first-day letter for the 1991 program.
04-15-91	Changes in Allocated Transfer Risk Reserve Determinations on Banking Institutions' Assets, SR Letter 91-12 (IB) ^a	Transmittal letter for an interagency statement by FRB Board of Governors of the Federal Reserve System, OCC, and FDIC regarding changes in allocated transfer risk reserves and loss requirements mandated in accordance with provisions of the International Lending Supervision Act of 1983 and Section 211.43 of Regulation K. Guidance was also provided on the distribution of the statement to state member banks and banking Edge Act corporations.
04-29-91	New Summary Examination Report Form to Be Used for Examination of Government Securities Activities, AD Letter 91-26 (SA)	Requested that a separate report summarizing findings of examination of government securities broker/dealer and custody activities of all state member banks (located within their districts) be completed and forwarded to FRB each time the government securities activities of state member banks covered by Treasury regulations are examined. Stated that examination results of government securities activities should also continue to be included in the Commercial or Trust Examination Report furnished to the bank. Enclosed copy of the new report form.
05-17-91	Extension of the Deadline for Licensed and Certified Real Estate Appraisers to 12-01-91, AD Letter 91-32 (FIS)	Announced the extension, by the Appraisal Subcommittee of FFIEC, of the effective date for requiring state-certified and -licensed appraisers to be used for appraisals done in connection with federal, related transactions. Attached a copy of the FFIEC Appraisal Subcommittee press release. The extension was necessary because the state's certification and licensing programs were in varying degrees of implementation.
07-03-91	Highly Leveraged Transactions	Notification of proposed regulation on the supervisory definition of HLTs.
07-12-91	Change in Allocated Transfer Risk Reserve Determinations on Banking Institutions' Assets, SR Letter 91-15 (FIS) ^a	Transmittal letter for an interagency statement by FRB, OCC, and FDIC regarding changes in allocated transfer risk reserves and loss requirements mandated in accordance with provisions of the International Lending Supervision Act of 1983 and Section 211.43 of Regulation K. Guidance was also provided on the distribution of the statement to state member banks and Edge Act corporations.

Date	Title/Number	Purpose/Description
07-16-91	Supplementary Examination Guidelines on Real Estate Loans and Certain Report Issues Pertaining to Nonaccrual Loans, SR Letter 91-16 (FIS)	Reiterated the basic principles of the March 1 interagency statement on credit availability--specifically, that institutions should work with creditworthy borrowers to meet their financing needs. Issues addressed included the prudent management of asset concentrations, the refinancing and rollover of real estate construction loans, and the restructuring of nonaccrual assets subject to the Financial Accounting Standards Board's (FASB) Statement No. 15.
08-15-91	Information on the Real Estate Appraisal Regulation, AD Letter 91-55 (FIS)	Transmitted questions and answers prepared by the Appraisal Subcommittee of FFIEC regarding the requirements of Title XI of FIRREA.
08-15-91	Shared National Credit Program, AD Letter 91-56 (FIS)	Transmitted to Reserve Banks the 1991 list of shared national credits and their disposition, together with write-ups for criticized shared national credits held by financial institutions in the recipient's district.
09-12-91	Criticized/Classified Asset Data at Largest BHCs, AD Letter 91-64 (FIS)	Requested that each Reserve Bank complete an attached worksheet for the top 50 BHCs in its district for the period ending June 30, 1991. Reserve Banks were asked to provide criticized and classified asset data, plus Tier 1 capital and loan loss reserve balances twice a year for the top 50 BHCs, as of June 30 and December 31.
09-23-91	Classification Guidelines for an Asset When a Substantial Portion Has Been Charged Off, SR Letter 91-18 (FIS)	Addressed the classification of loans when a substantial portion has been charged off. This guidance reiterates long-standing policy in this area and presents a classification framework for a partially charged-off loan that is intended to reflect the repayment prospects of the remaining recorded balance of the loan.
10-11-91	Environmental Liability, SR Letter 91-20 (FIS)	Guidance on the examination of banking organizations' loan portfolios with respect to environmental liability. Outlines elements of loan policies to mitigate liability. Transmittal for discussion paper on environmental liability and its impact on banking organizations.
10-25-91	Review of Government Securities Activities, SR Letter 91-22 (SA) ^a	Guidance for evaluation and on-site inspection of BHCs, banks, and branches engaged in government securities dealing. Transmittal for listings of affected entities and contacts at those companies.
11-07-91	Interagency Examination Guidance on Commercial Real Estate Loans, SR Letter 91-24 (FIS) ^b	Transmittal for the November 7, 1991, interagency policy statement on the review and classification of commercial real estate loans. Supplement to guidance presented in the March 1, 1991, joint policy statement.

Date	Title/Number	Purpose/Description
11-07-91	Interagency Examination Guidance on Commercial Real Estate Loans, SR Letter 91-25 (FIS) ^b	Transmittal letter for the press release and joint staff memorandum issued regarding examination guidance on commercial real estate loans, November 1991.
11-08-91	Examination Review Procedures--Programs for Evaluating and Reviewing Use of Appraisals, SR Letter 91-26 (FIS)	Requested that each Reserve Bank set up a procedure to review examiners' use of appraisal information when classifying real estate loans. The review process is designed to promote the use of consistent and reasonable assumptions when assessing real estate values.
11-08-91	Interagency Meeting of Federal Financial Regulatory Examination Staff, December 16-17, 1991, AD Letter 91-78 (FIS)	Announced the Interagency Examiners Conference to be held December 16-17, 1991, in Baltimore to discuss regulatory policies and procedures and their effects on the availability of credit. Also discussed a meeting of Federal Reserve senior officers in charge of supervision to be held on December 18, 1991.
12-05-91	National Examiners' Conference, AD Letter 91-85 (FIS)	Provided information on the National Examiners' Conference, which was held to review and discuss the November 7, 1991, "Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans." Also communicated other initiatives and policies related to credit availability with senior examiners of the four bank regulatory agencies.
12-10-91	Shared National Credit Program for 1992, SR Letter 91-28 (FIS)	Letter announced the commencement of the 1992 Shared National Credit Program. Contained guidance on mailing forms and letters to state member banks and state-licensed U.S. branches and agencies of foreign banks participating in the program.
12-13-91	Changes in Allocated Transfer Risk Reserve Determination on Banking Institutions' Assets, SR Letter 91-30 (FIS) ^a	Transmitted an interagency statement regarding changes in allocated transfer risk reserves and loss requirements under the International Lending and Supervision Act of 1983 and Regulation K. This information is used to assess the exposure of financial institutions in foreign countries and is considered confidential.
12-30-91	Delay in the Federal Effective Date for the Mandatory Use of Licensed and Certified Real Estate Appraisers in Federally Related Transactions, SR Letter 91-32 (FIS)	Transmitted the extension of the effective date for the use of licensed and certified appraisers as required by FDICIA. The date for compliance with the federal regulation was extended until December 31, 1992.

Date	Title/Number	Purpose/Description
01-09-92	Shared National Credit Program for 1992, AD Letter 92-3 (FIS)	Explained the Shared National Credit Program for 1992 and discussed staffing needs from the Reserve Banks for the program.
01-10-92	Supervisory Policy Statement on Securities Activities, SR Letter 92-1 (FIS)	Addressed the selection of securities dealers and requires depository institutions to establish prudent policies and practices for securities transactions.
01-31-92	Loss Experience on Residential Construction Projects, AD Letter 92-9 (FIS)	Requested information from each Reserve Bank regarding the riskiness of various types of residential construction projects.
02-06-92	Supervisory Definition of Highly Leveraged Transactions	Discontinued the use of the supervisory definition of HLTs after June 30, 1992. Also transmitted revisions to the definition to be used until June 30, 1992.
02-10-92	Treatment of Value Impaired Classifications for Asset Quality Purposes, SR Letter 92-2 (FIS)	Revised the treatment of assets impaired by protracted transfer risk problems. The letter updates examination procedures to be consistent with current practices.
02-10-92	Underwriting Up to \$15 Million of Equity Securities in a Single Subsidiary Under Regulation K, SR Letter 92-3 (FIS)	Discussed the clarification of FRB's 1991 revisions to Regulation K, including the higher investment limits under Section 211.5(d)(14). In order to take advantage of these limits, investors must receive prior approval from FRB.
02-10-92	Criticized/Classified Asset Data for Top 50 BHCs, AD Letter 92-14 (FIS)	Requested that Federal Reserve Banks complete attached worksheet providing criticized and classified asset data (plus Tier 1 capital and loan loss reserve balances) on a quarterly basis for the top 50 BHCs.
03-02-92	Shared National Credit Program--Screening of Credits, SR Letter 92-5 (FIS)	Implemented a credit screening program for use during the 1992 Shared National Credit Review. The screening program was developed to reduce the amount of examination resources expended during the review, without sacrificing the integrity of the review.
03-09-92	State Requirements for Certified and Licensed Appraisers, SR Letter 92-7 (FIS)	Provided a state-by-state listing of the requirements for the use of licensed or certified appraisers. The letter provided guidance on whether the federal requirements or the individual state requirements should be followed when examining state member banks.

Date	Title/Number	Purpose/Description
03-26-92	Shared National Credit Program for 1992, AD Letter 92-21 (FIS)	Transmitted forms to be used for the 1992 Shared National Credit Program.
Management		
12-16-91	Proposed Revisions for the Report of Bank Holding Company Intercompany Transactions and Balances (FR Y-8), AD Letter 91-88 (FIS)	Transmitted for review and comment a proposed revised form for the "Report of Bank Holding Company Intercompany Transactions and Balances" (FR Y-8).
02-13-92	Regulation O	Proposed rule to revise Regulations O and Y required by Section 306 of FDICIA.
Earnings		
03-19-91	Quarterly Monitoring of Large BHC Earnings, AD Letter 91-17 (FIS)	Transmitted December 31, 1990, earnings information for all BHCs with consolidated assets over \$1 billion.
05-21-91	Quarterly Monitoring of Large BHCs Earnings, AD Letter 91-33 (FIS)	Transmitted March 31, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.
09-06-91	Quarterly Monitoring of Large BHC Earnings, AD Letter 91-60 (FIS)	Transmitted June 30, 1991, earnings information for all BHCs with consolidated assets over \$1 billion. Indicated that a floppy disk containing this information was also sent.
10-10-91	Revised Procedures for Submitting the Quarterly BHC Earnings Report, AD Letter 91-73 (FIS)	Prescribed procedures for Reserve Banks to submit to FRB a quarterly earnings report for BHCs in their district with more than \$1 billion in total assets.
11-19-91	Quarterly Monitoring of Large BHC Earnings, AD Letter 91-81 (FIS). See Note: AD Letter 91-83 (FIS)	Transmitted September 30, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.

Date	Title/Number	Purpose/Description
11-29-91	Quarterly Monitoring of Large BHC Earnings, AD Letter 91-83 (FIS). Supersedes AD Letter 91-81 (FIS)	Transmitted revised September 30, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.
Liquidity		
06-06-91	Sale of Uninsured Annuities by State Member Banks and BHCs, SR Letter 91-14 (FIS)	Guidance on the examination objectives and guidelines with respect to the marketing and sale of uninsured annuities by state member banks and BHCs. Included information on improper marketing practices that may lead customers to believe products are insured.
08-07-91	Interest Rate Risk, AD Letter 91-54 (FIS)	Transmitted a proposed examination framework for measuring interest rate risk at banks. The proposal is built around a simplified, duration-based measure of risk to identify banks that may have relatively high levels of exposure.
12-19-91	Guidance to Foreign Banks in Complying With New Deposit-Taking Restrictions, SR Letter 91-31 (IB)	Provided guidance to foreign banks in complying with provisions of FDICIA Section 214(a). The guidance was designed to assist foreign banks in adjusting to the restrictions before the adoption of final rules and regulations.
01-24-92	FDIC Limits on Brokered Deposits, AD Letter 92-8 (FIS)	Transmitted FDIC notice to all insured depository institutions of the provisions of Section 301 of FDICIA. It described limits on accepting brokered deposits, which will vary depending upon the capital classification of the insured depository institution. In addition, all deposit brokers will be made to register as deposit brokers with FDIC.
General		
03-01-91	Federal Reserve Press Release and Interagency Policy Statement on Credit Availability ^b	Guidance was designed to contribute to a climate in which banks and thrifts make loans to creditworthy borrowers and work constructively with borrowers experiencing financial difficulties, consistent with safe and sound banking practices. Included guidelines to clarify regulatory and accounting policies pertaining to such issues as (1) recognition of income for certain nonperforming loans, (2) valuation of real estate loans in exams, and (3) guidance on other issues relating to nonaccrual assets and formally restructured debt.
03-05-91	Quarterly Bank Surveillance Procedures, AD Letter 91-14 (FIS)	Announced the distribution of the December 1990 Systemwide bank screens and exception lists for all member banks. Also announced that the state member bank portion of the exception lists and the surveillance ratios by peer group are available for on-line access.

Date	Title/Number	Purpose/Description
03-07-91	Request for Comments for Revisions to the Bank Holding Company Report of Changes in Investments or Activities (FR Y-6A), AD Letter 91-15 (FIS)	Requested comments on revisions being considered for the "Bank Holding Company Report of Changes in Investments or Activities" (FR Y-6A). Transmitted a copy of the report form and instructions. The revisions to the report and instructions focused on simplification of the reporting process and clarification of the report instructions. Additionally, the issue of altering the reporting cycle to collect information on an event-driven basis was to be considered.
03-14-91	Delegation of Section 4(c)(8) Applications to Own, Control, or Operate a Savings Association, SR Letter 91-8 (FIS)	Notice of delegation to Reserve Banks of authority for processing applications to own, control, or operate a savings association. Provided guidelines for processing applications and related financial analysis, including guidance on referring applications for FRB action in instances in which the savings association is conducting impermissible nonbanking activities or operating out-of-state branches.
03-14-91	December 1990 BHC Surveillance Procedures, AD Letter 91-16 (FIS)	Announced the distribution of the December 1990 Systemwide BHC screens and exception lists for BHCs with consolidated assets over \$150 million and multibank holding companies. Announced that Reserve Banks' preliminary evaluations of the financial condition of those companies in their districts that failed the screens was due to FRB's surveillance section on March 22, 1991.
03-19-91	Priority Criminal Referrals and Attorneys, Accountants, and Appraisers as "Institution-Affiliated Parties," SR Letter 91-9 (FIS)	Guidelines on information to be provided to FRB regarding criminal referrals for the purpose of determining if formal enforcement actions are warranted against individuals.
03-22-91	Reports to Congress Regarding Administrative Enforcement and Criminal Investigatory and Prosecutorial Activities, SR Letter 91-10 (FIS)	Transmittal letter for the Federal Reserve's report to Congress pursuant to Section 918 of FIRREA. Letter contained statistical information of Federal Reserve enforcement actions for 1990.
03-22-91	Nationwide Survey of Examiners and Liquidators Sponsored by FDIC, AD Letter 91-18 (FIS)	Announced FDIC's decision to sponsor an ongoing nationwide survey of examiners and liquidators to find out about conditions in local residential and commercial real estate markets across the U.S., and its invitation to the other banking agencies to join in the project. The letter notified the Reserve Banks of the survey and asked them to participate.

Date	Title/Number	Purpose/Description
03-23-91	Advances by Banking Edge Corporations to Parent Institutions, SR Letter 92-8 (FIS)	Guidance on the examination of advances by Edge Act corporations to parent institutions. Discussed certain situations inconsistent with safe and sound banking practices where concentrations exceed prudent standards.
03-28-91	BHC Reporting Requirements for March 31, 1991, SR Letter 91-11 (FIS)	Transmitted a summary of changes to bank holding company reports for March 31, 1991, and the <u>Federal Register</u> Notice published for comments on those changes. <u>Federal Register</u> Notice also announced the Federal Reserve's intention to release data to the public submitted on certain schedules containing risk-based capital information.
03-29-91	Nationwide Survey of Examiners and Liquidators Sponsored by FDIC (follow-up), AD Letter 91-20 (FIS)	As a follow-up to the previous letter on this subject, this letter announced that 46 officers and senior examiners were selected to participate in the FDIC-sponsored National Survey of Examiners and Liquidators to Assess Real Estate Conditions, which was expected to begin approximately 10 days from the writing of the letter.
04-10-91	Diskettes Containing Financial Data on the 50 Largest BHCs, AD Letter 91-21 (FIS)	Transmitted diskettes containing financial ratios and statistics about the condition of the 50 largest BHCs for year-end 1990. This quarter's version was the same as that for the third quarter. Also stated that the data systems for the top 50 BHCs would soon be made available to the general public.
04-12-91	1991 Joint Interagency Supervision Conference, April 23-26, 1991, AD Letter 91-22 (FIS)	Provided logistical information and agenda for the Joint Interagency Supervision Conference in Dallas, TX, to be held April 23 to 26, 1991.
04-19-91	Statistical Report on Applications Activity, First Quarter 1991, AD Letter 91-23 (FIS)	Transmitted the first quarter 1991 Report on Applications Activity.
04-22-91	Financial Data for RTC Conservatorships and Minimally Capitalized Thrifts, AD Letter 91-24 (FIS)	Transmitted a diskette containing financial information for 209 Resolution Trust Corporation (RTC) conservatorships operating on April 15, 1991. The diskette also contained a listing of minimally capitalized private sector thrifts (core capital less than or equal to 3 percent of assets), based on December 31, 1990, data.

Date	Title/Number	Purpose/Description
05-06-91	Second Originals for International Application and Prior Notifications (FR K-1) and for Report of Changes in Foreign Investments (FR 2064), With Accompanying Instructions, AD Letter 91-28 (IB)	Transmitted a set of second originals for international applications and notifications under Regulation K (FR K-1), and the Report of Changes in Foreign Investment filed by holding companies, member banks, and Edge Act and agreement corporations. Both forms were extended without revision through April 30, 1992, after which recently completed revisions to Regulation K would require revisions to both.
05-06-91	Interdistrict EDP Pooling Program, AD Letter 91-29 (FIS)	Announced 1992 Interdistrict EDP Pooling Program, briefly describing its benefits and requirements for participation.
05-10-91	Database Containing Financial Data on all BHCs and Commercial Banks, AD Letter 91-30 (FIS)	Announced the availability of the Financial Institutions Database of financial information on all BHCs and banks as of December 31, 1990.
05-10-91	Summary of Supervision Automation Conference, AD Letter 91-31 (FIS)	Transmitted a summary of the Supervision Automation Conference hosted by the Federal Reserve Bank of Dallas on March 5-7, 1991. Also contained a summary of the major automation activities of each Reserve Bank since the last conference and an agenda and list of attendees for the conference.
06-03-91	Civil Money Penalties and the Use of the Civil Money Penalty Assessment Matrix, SR Letter 91-13 (FIS)	Provided guidance on the expansion of FRB's authority to assess civil money penalties as a result of the passage of FIRREA. Also transmitted a copy of the civil money penalty assessment matrix and provided guidance for its use.
06-03-91	Minutes of the Annual System Conference of Trust Examiners, AD Letter 91-34 (SA) ^a	Transmitted minutes of the 1991 System Conference of Trust Examiners.
06-05-91	Tuition Assistance for State Examiners, AD Letter 91-35 (FIS)	Requested that each Reserve Bank continue to budget funds for the training of state bank examiners as originally called for in SR Letter 86-10. This letter was sent out after some Reserve Banks did not budget for state training assistance in 1991.

Date	Title/Number	Purpose/Description
06-05-91	Proposed Regulatory Reports Monitoring Program, AD Letter 91-36 (FIS) ^a	Transmitted for comment a draft of the internal manual that would be used by Federal Reserve personnel to implement the proposed Regulatory Reports Monitoring Program. The new program aims to (1) establish a uniform procedure Systemwide for monitoring the timeliness and accuracy of reports filed with the Federal Reserve System and (2) promote the filing of timely and accurate reports by financial institutions through the use of FRB's civil money penalty assessment authority against state member banks, BHCs, foreign financial institutions and their branches and agencies, and institution-affiliated parties that file late, false, or misleading regulatory reports. Requested that comments be submitted by June 28, 1991.
06-11-91	Quarterly Bank Surveillance Procedures, AD Letter 91-37 (FIS)	Announced the distribution of the March 1991 Systemwide bank screens and exceptions lists for all member banks. Also stated that when FFIEC made available the March 31, 1991, Uniform Bank Performance Report tapes, they would be distributed to the Reserve Banks.
06-11-91	Two-Day Training Seminar on BHC Reporting Requirements, AD Letter 91-38 (FIS)	Announced, described, and provided agenda for a 2-day training session to be held by staff in the Division of Banking Supervision and Regulation on July 10-11, 1991, on the reporting requirements contained in the BHC automated reports (FR Y-9C, FR Y-9LP, FR Y-9SP, Y-11Q, and FR Y-11 AS) and on related issues to ensure accurate reporting of information by BHCs.
06-11-91	Conference of Officers in Charge of Supervision, July 18-19, 1991, AD Letter 91-39 (FIS)	Announced that the Federal Reserve Bank of Cleveland would host the Meeting of Officers in Charge of Supervision on July 18-19, 1991. Also provided logistical information for attendees.
06-19-91	Renewed Form FR U-1, AD Letter 91-40 (FIS)	Transmitted a "second original" of the Form FR U-1 (Statement of Purpose for an Extension of Credit Secured by Margin Stock). The form was renewed without revision for use through June 30, 1994.
06-21-91	Nationwide Survey of Examiners and Liquidators Sponsored by the FDIC, AD Letter 91-41 (FIS)	Announced that FDIC's Real Estate Survey had been shifted to a quarterly basis and the second survey would be conducted from July 8 through July 19, 1991.
06-24-91	March 1991 BHC Surveillance Procedures, AD Letter 91-42 (FIS)	Announced transmittal of the March 1991 Systemwide BHC screens and exception lists for BHCs with consolidated assets over \$150 million and multibank holding companies. Also stated that Reserve Bank preliminary evaluations of the financial condition of those companies that failed screens were due on July 1, 1991.

Date	Title/Number	Purpose/Description
06-27-91	1990 Regulation G Statistics, AD Letter 91-43 (SA)	Transmitted latest Regulation G statistics. The release included the amount and type of credit to purchase or carry margin stock ("purpose credit") outstanding as of June 30, 1990, and the amount and type of purpose credit extended during the period from July 1, 1989, to June 30, 1990.
07-11-91	Diskettes Containing Financial Data on the 50 Largest BHCs, AD Letter 91-44 (FIS)	Transmitted diskettes containing financial ratios and statistics about the condition of the 50 largest BHCs for the first quarter 1991.
07-12-91	Equal Opportunity Report, AD Letter 91-45 (FIS)	Transmitted most current address list, including each regional director's name and office phone number, for the Office of Federal Contract Compliance Programs, Department of Labor, in order to assist Federal Reserve examiners in reporting on compliance of state member banks with Executive Order 11246, which dictates that banks must submit Form EEO-1 and have on file a written affirmative action program.
07-12-91	Financial Data for RTC Conservatorships and Minimally Capitalized Thrifts, AD Letter 91-46 (FIS)	Transmitted a diskette containing financial information for 188 RTC conservatorships operating on July 5, 1991. The diskette also contained financial data for 220 minimally capitalized private sector thrifts (core capital less than or equal to 3 percent of assets), based on March 31, 1991, data.
07-12-91	Conference of Reserve Bank Officers in Charge of Supervision, Federal Reserve Bank of Cleveland, July 18-19, 1991, AD Letter 91-47 (FIS)	Transmitted a copy of the agenda and list of attendees for the Supervision Conference to be held at the Cleveland Reserve Bank on July 18-19, 1991.
07-22-91	Application and Supervision Standards for De Novo State Member Banks, SR Letter 91-17 (FIS)	Transmittal letter for revisions to policy regarding application and supervision standards for <u>de novo</u> state member banks. Described expanded policy coverage and elements of applications analysis and supervisory requirements.
07-24-91	Semiannual Update of the Examiner Resource Database, AD Letter 91-48 (FIS)	Transmitted for completion, staff and skill profiles for the Federal Reserve System's Examiner Resource Database. Information was to be updated as of June 30, 1991, for Reserve Bank nonofficer professional staff and was to reflect personnel changes since December 31, 1990.

Date	Title/Number	Purpose/Description
07-26-91	Review of Certain Supervisory and Examination Policies, Procedures, and Practices, AD Letter 91-50 (FIS)	Transmitted outline plan for undertaking the Systemwide review of the effectiveness, efficiency, and consistency of examination policies and practices. The document incorporates the approach that was discussed at the Cleveland Senior Officers Meeting on July 19, 1991.
08-02-91	PC Disk Copies of the November 1990 Commercial Bank Examination Manual and the June 1991 Bank Holding Company Supervision Manual, AD Letter 91-51 (FIS)	Transmitted three PC disks containing the <u>Commercial Bank Examination Manual</u> , and three other disks updating, through June 1991, the <u>Bank Holding Company Supervision Manual</u> .
08-02-91	Statistical Report on Applications Activity, Second Quarter and First 6 Months of 1991, AD Letter 91-52 (FIS)	Transmitted the Report on Applications Activity for the second quarter and first 6 months of 1991.
08-06-91	SR Letter Index Revision, AD Letter 91-53 (FIS)	Announced that the <u>Index of SR Letters</u> had been revised as of the end of June 1991. The revised version of the index replaced the July 1989 edition.
08-21-91	Interdistrict Inspection/ Examination Requirements for 1992, AD Letter 91-57 (FIS)	Requested information to assist in scheduling interdistrict BHC inspections for state member bank examinations.
08-28-91	Revision of the Bank Holding Company Supervision Manual, AD Letter 91-58 (FIS)	Transmitted a copy of Supplement 2 to the <u>Bank Holding Company Supervision Manual</u> , which updated it through June 1992.
08-30-91	Quarterly Bank Surveillance Procedures, AD Letter 91-59 (FIS)	Announced distribution of the June 1991 Systemwide bank screens and exception lists for all member banks. Noted that data used in these screens and exception lists were preliminary and that the screens would be reproduced in mid-September using final data.
09-06-91	Fall Conference of Officers in Charge of Supervision, AD Letter 91-61 (FIS)	Confirmed/announced that the Fall Conference of Officers in Charge of Supervision would be held at FRB on October 8-9, 1991. Mentioned need to review the work of the supervision groups that were established at the Cleveland Conference.

Date	Title/Number	Purpose/Description
09-10-91	1992 EDP Examination Schedule--Multiregional Data Processing Servicers (MDPS), AD Letter 91-62 (FIS)	Transmitted the 1992 multiregional data processing servicers' examination schedule detailing the servicer to be examined, date, and lead agency. Advance notice was provided to assist Reserve Banks in scheduling interagency examinations.
09-11-91	Diskette Containing Financial Data on the 50 Largest BHCs, AD Letter 91-63 (FIS)	Transmitted diskettes containing financial ratios and statistics about the condition of the 50 largest BHCs for the first half of 1991.
09-18-91	Revised Edition of Manual on Procedures for Processing Applications, AD Letter 91-65 (FIS)	Announced the distribution of the revised <u>Manual on Procedures for Processing Applications</u> and transmitted "Notes to the Manual on Procedures for Processing Applications."
09-18-91	June 1991 BHC Surveillance Procedures, AD Letter 91-66 (FIS)	Announced the transmittal of the June 1991 Systemwide BHC screens and exception lists for BHCs in each district with consolidated assets over \$150 million and multibank holding companies. Each Reserve Bank's preliminary evaluation of the financial condition of those companies in its district that failed were due on September 25, 1991, to the manager of FRB's Surveillance Section.
09-19-91	System International Examinations Scheduling Meeting and Merchant and Investment Bank Examination Task Force Meeting, AD Letter 91-67 (IB)	Announced the international examinations scheduling meeting to take place on November 13, 1991, and another meeting to be held on November 14 and 15 to review the <u>Merchant and Investment Bank Examination Manual</u> for possible revision.
09-19-91	1992 Interdistrict Pooling Assignments, AD Letter 91-68 (FIS)	Transmitted the tentative schedule of pooling assignments for 1992. Information concerning EDP examinations for inclusion into the pooling program as well as examiner resources were provided in response to AD 91-29 (FIS) dated May 6, 1991.
09-20-91	1992 Shared Application Software Review (SASR) Schedule, AD Letter 91-69 (FIS)	Transmitted list of the four major software vendors subject to review in 1992 in FFIEC's Shared Application Software Review Program.

Date	Title/Number	Purpose/Description
09-30-91	Nationwide Survey of Examiners and Liquidators Sponsored by the FDIC, AD Letter 91-70 (FIS)	Announced that FDIC would undertake the quarterly real estate survey during the first half of October.
10-02-91	Communication Efforts Regarding Credit Availability Concerns, SR Letter 91-19 (FIS)	Transmitted information to each Federal Reserve Bank indicating that Members of Congress in their districts might sponsor "town meetings" to address credit availability concerns. The letter encouraged the Reserve Banks to participate in these meetings and to provide FRB staff with short summaries of discussions at meetings attended.
10-02-91	Fall Conference of Senior Officers in Charge of Supervision, October 8-9, 1991, AD Letter 91-71 (FIS)	Transmitted the agenda and list of attendees for the Fall Conference of Senior Officers in Charge of Supervision to be held on October 8-9, 1991.
10-07-91	Meetings With Senior Bank Executives on Credit Availability Issues, AD Letter 91-72 (FIS)	Meetings were held to strengthen understanding of issues affecting credit availability and the conditions banks were facing, determine questions bankers had regarding FRB's policies, and solicit the banks' views on further steps to be taken to address credit availability concerns.
10-11-91	Financial Data for RTC Conservatorships and Minimally Capitalized Thrifts, AD Letter 91-74 (FIS)	Transmitted a diskette containing financial information for 96 conservatorships and 564 cases resolved by RTC through October 4, 1991. Also included data for 183 minimally capitalized (core capital less than or equal to 3 percent of assets) private sector thrifts operating on October 4, 1991.
10-21-91	EDP Interagency Examination, Scheduling and Distribution Policy, SR Letter 91-21 (FIS)	Transmittal letter for the revised EDP Interagency Examination, Scheduling and Distribution Policy of September 1991.
10-31-91	Annual Report of International Fiduciary Activities (Form FFIEC 006--Reporting Year 1991), AD Letter 91-75 (FIS)	Transmitted a copy of the Annual Report of International Fiduciary Activities (Form FFIEC 006) and related instructions for the reporting year 1991. Information collected by this and similar forms has been used by FFIEC since 1978 to establish and maintain an information base for international fiduciary activities of U.S. banks, BHCs, and Edge Act corporations. A list of institutions in the recipient's district known to engage in international banking activities was also enclosed.

Date	Title/Number	Purpose/Description
10-31-91	Systemwide Review of the Effectiveness, Efficiency, and Consistency of Examination Policies and Procedures, November 22, 1991, Meeting, AD Letter 91-76 (FIS)	Announced the postponement of the November 22, 1991, meeting to discuss draft reports from the six study groups working on the project. Instead, there was to be a conference call on that date among the working group heads.
11-06-91	Form FFIEC 004, SR Letter 91-23 (FIS)	Transmittal letter for Form FFIEC 004, used by executive officers and principal shareholders of member banks to report their indebtedness to their boards of directors.
11-07-91	Interdistrict Trust Examiner Pooling for 1992, AD Letter 91-77 (FIS)	Requested information from each Reserve Bank regarding the bank's need for out-of-district assistance in its trust examination activities and its ability to assist other districts.
11-14-91	Statistical Report of Applications Activity for the Third Quarter of 1991, AD Letter 91-79 (FIS)	Transmitted the third quarter 1991 Report on Applications Activity.
11-15-91	Federal Reserve's Practices for Resolving Bankers' Questions Regarding the Examination Process, SR Letter 91-27 (FIS) ^a	Transmittal letter for draft letter to Reserve Bank presidents describing the System's practices for resolving bankers' questions and concerns regarding the examination process and findings.
11-15-91	Annual System Conference of Trust Examiners, AD Letter 91-80 (FIS)	Announced and provided logistical information on the Annual System Conference of Trust Examiners to be held February 19-21, 1992.
11-29-91	Quarterly Bank Surveillance Procedures, AD Letter 91-82 (FIS)	Transmitted September 1991 Systemwide bank screens and exception lists for all member banks in the recipient's districts.
12-04-91	Distribution of Treasury Interpretations Under the Government Securities Act of 1986, AD Letter 91-84 (FIS)	Announced the establishment of a system for distributing to Federal Reserve System examiners interpretations issued by the Department of the Treasury of its rules issued under the Government Securities Act of 1986.

Date	Title/Number	Purpose/Description
12-05-91	Request for Comments on the Draft Revisions to the Commercial Bank Examination Manual, AD Letter 91-86 (FIS)	Requested that comments from Reserve Banks on the draft revisions to the <u>Commercial Bank Examination Manual</u> (sent under separate cover) be sent to FRB by January 24, 1992.
12-11-91	Diskette Containing Financial Condition on the 50 Largest BHCs, AD Letter 91-87 (FIS)	Transmitted a diskette containing financial ratios and statistics pertaining to the condition of the 50 largest BHCs for the third quarter 1991.
12-12-91	Communication and Examination Procedures Concerning Credit Availability, SR Letter 91-29 (FIS)	Addressed the communication of credit availability policies and set forth certain examination procedures to document compliance with these policies. In discussing the communication of these policies, the SR letter reemphasized the importance of (1) continuing to obtain the views of bankers regarding credit availability and (2) ensuring that examiners and bank management understand the credit availability policy statements and related guidance.
12-13-91	Policy on Resolving Examination Differences, S Letter 2546	Outlined the circumstances and requirements for appealing examination findings and conclusions. Specifically, the S Letter provided for the review of material and significant disagreements between bankers and examiners by senior Reserve Bank officials, including the Reserve Bank president.
12-16-91	September 1991 BHC Surveillance Procedures, AD Letter 91-89 (FIS)	Announced the transmittal of the September 1991 Systemwide BHC screens and exception lists for BHCs with consolidated assets over \$150 million and multibank holding companies. Stated that Reserve Banks' preliminary evaluations of the financial condition of companies in their districts that failed the screens were due on January 3, 1992.
12-30-91	1991 Reserve Bank Evaluations, AD Letter 91-90 (FIS)	Discussed the "ground rules" for the evaluation of the 1991 performances of Reserve Bank supervision and regulation activities. Mentioned the problem of uniformly high ratings among the banks and the fact that ratings would be assigned by FRB staff that year, instead of by the banks themselves.
01-08-92	Nationwide Survey of Examiners and Liquidators Sponsored by FDIC, AD Letter 92-1 (FIS)	Announced that FDIC would undertake the quarterly real estate survey during the second half of January. Examiners would be asked broad questions about conditions and trends in the areas in which they worked most in recent months.

Date	Title/Number	Purpose/Description
01-08-92	Financial Data for RTC Conservatorships and Minimally Capitalized Thrifts, AD Letter 92-2 (FIS)	Transmitted a diskette containing financial information in LOTUS format for RTC thrifts and minimally capitalized private sector thrifts as of January 1, 1992. Financial data were as of September 30, 1991.
01-09-92	Request for Comments on Draft Revisions to the Commercial Bank Manual, AD Letter 92-4 (FIS)	Transmitted certain examination checklists that were inadvertently left out of the original package of draft revisions to the <u>Commercial Bank Examination Manual</u> previously sent out for comment.
01-21-92	Annual Questionnaire and Database Update, AD Letter 92-5 (FIS)	Transmitted for completion the "1991 Annual Questionnaire for Reserve Bank Supervision Departments" and the professional staff and skill profiles for the Examiner Resource Database (June 30, 1991) to be updated as of December 31, 1991.
01-22-92	Training Seminar on Bank Holding Company Reporting Requirements Effective With the March 1992 Reporting Date, AD Letter 92-6 (FIS)	Announced a training seminar to be held by the Division of Banking Supervision and Regulation and the Division of Information Resources Management on February 6-7, 1992.
01-24-92	FFIEC Risk Management Seminar, AD Letter 92-7 (FIS)	Transmitted an FFIEC press release regarding three risk management planning seminars that it will conduct in 1992 for bank chief executive officers. FFIEC asked that the press release be sent by the Reserve Banks to the chief executive officers of each state member bank in their districts.
01-31-92	Annual Meeting of the Conference of State Bank Supervisors and the Senior Vice Presidents' Conference, April 10-13, 1992, AD Letter 92-10 (FIS)	Announced the annual meeting of the Conference of State Bank Supervisors in Charleston, SC, on April 10-13, 1992, and the Spring meeting of Federal Reserve Senior Officers in Charge of Supervision at the same location on April 10.
01-31-92	Annual System Conference of Trust Examiners, AD Letter 92-11 (FIS)	Transmitted copies of the agenda and the list of attendees for the Conference of Trust Examiners of the Federal Reserve System to be held February 19-21, 1992.

Date	Title/Number	Purpose/Description
01-31-92	Electronic Versions of the <u>Current Commercial Bank Examination Manual</u> and <u>Bank Holding Company Supervision Manual</u> , AD Letter 92-12 (FIS)	Announced the availability of automated versions of the <u>Commercial Bank Examination Manual</u> and the <u>Bank Holding Company Supervision Manual</u> .
02-06-92	Statistical Report on Applications Activity, Fourth Quarter and Year 1991, AD Letter 92-13 (FIS)	Transmitted the Report on Applications Activity, fourth quarter and year 1991.
02-21-92	Guidance for Compliance With New Notice Requirements for Branch Closings, SR Letter 92-4 (FIS)	Provided guidance on the implementation of FDICIA Section 228. Section 228 revised FDICIA to require that banks give notice to the federal regulatory agencies and the public before closing any branch.
02-21-92	Interdistrict Trust Examiner Pooling Schedule for 1992, AD Letter 92-15 (FIS) ^a	Transmitted the confidential schedule of trust examinations for the interdistrict pooling program, 1992.
03-02-92	December 1991 Bank Surveillance Procedures, AD Letter 92-16 (FIS)	Transmitted the December 1991 Systemwide bank screens and exception lists for all member banks in the recipient's district.
03-03-92	Request for Information on Communication Efforts Regarding Credit Availability Concerns and Related Matters, AD Letter 92-17 (FIS)	Requested a variety of types of information from the Reserve Banks regarding their efforts to communicate credit availability policies to bankers and examiners.
03-03-92	Quarterly Monitoring of Large Bank Holding Company Earnings, AD Letter 92-18 (FIS)	Transmitted December 31, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.

Date	Title/Number	Purpose/Description
03-05-92	Interim Procedures for the Processing of Applications Filed by Foreign Banks to Establish Branches, Agencies, Commercial Lending Subsidiaries, and Representative Offices in the United States, SR Letter 92-6 (FIS)	Provided guidance on the application requirements contained in the Foreign Bank Supervision Enhancement Act of 1991 (contained in FDICIA). This act requires all foreign banks to obtain prior approval from FRB before opening a branch, agency, etc., in the U.S.
03-16-92	December 1991 BHC Surveillance Procedures, AD Letter 92-19 (FIS)	Transmitted the December 1991 Systemwide BHC screens and exception lists for BHCs with consolidated assets over \$150 million and multibank holding companies. Reserve Banks' preliminary evaluations of the financial condition of companies in their districts that failed the screens were due March 23, 1992.
03-17-92	Delegation of Authority to Issue Consent Orders, AD Letter 92-20 (FIS)	Announced the delegation by the Board of Governors to the General Counsel, effective February 28, 1992, of the authority to issue, on behalf of FRB, consent orders against the financial institutions regulated by the Federal Reserve and individuals associated with them.
03-24-92	State Requirements for Certified and Licensed Appraisers--Update, SR Letter 92-9	Transmittal letter for document containing an analysis of state implementation dates for the enforcement of the certification and licensing requirements for appraisers. Document notes changes in the enforcement dates and changes in the type of state law.
03-26-92	Notification to State Member Banks and BHCs Regarding FASB Statement No. 109, SR Letter 92-10	Transmittal for letter to be sent to state member banks and BHCs indicating that FASB 109 should not be adopted for regulatory reporting and capital adequacy purposes until the Federal Reserve completes a review of its impact.
03-27-92	Diskette Containing Financial Condition on the 50 Largest BHCs, AD Letter 92-22 (FIS)	Transmitted a diskette containing financial ratios and statistics about the condition of the 50 largest BHCs for the year ending 1991.
03-27-92	Bank Listing, AD Letter 92-23 (FIS)	Transmitted a listing of banks compiled from various warnings, alerts, and bulletins issued by foreign and U.S. bank regulatory authorities.
03-31-92	Alternate Examination Programs, AD Letter 92-24 (FIS)	Requested a variety of information to assist the Federal Reserve in assessing its ongoing examination relationships with the states. This information was requested to assist the Federal Reserve in carrying out its statutory responsibilities under FDICIA.

Date	Title/Number	Purpose/Description
04-08-92	International Supervision	Requested comments on interim revisions to Regulations K and Y required by Title II of FDICIA. These revisions relate to the U.S. operations of foreign banks and their branches.

^aConfidential, not for public release.

^bOne of the two major comprehensive interagency policy statements discussed in the report.

Table II.4: Regulatory Guidance Related to Safety and Soundness Policies for Banks Supervised by OCC, March 1991 Through April 1992

Date	Title/Number	Purpose/Description
Capital		
05-29-91	Classified Asset Ratios, EB 91-5	Informed all examining personnel of a change in OCC policy regarding calculation of classified assets as a percentage of capital.
08-08-91	Final Rule, National Bank Lending Limit Loan Commitments, BB 91-29	Transmitted final rule providing that any loan commitment, which together with other loans to the same borrower was within the bank's lending limit at the time the commitment was made, qualifies as an actual loan for lending limit purposes. Such commitments may be funded, even if the bank's lending limit later declines.
09-17-91	Risk-Based Capital Model for Bankers, BB 91-37	Announced that the Supervisory Research Division of OCC had developed a model that estimates the risk-based capital ratio using Call Report information. The model was being made available to national banks and other interested parties in an effort to increase risk-based capital planning. An order form was enclosed.
04-09-92	Notice of Proposed Rulemaking on the Risk-Based Capital Treatment of Residential Construction Loans Secured by Presold Homes, BB 92-19	Transmitted proposed rule which amended the risk-based capital guidelines to include in the 50-percent risk weight category certain loans to builders to finance the construction of presold one-to-four-family residential properties. The effect of the proposal would be to move these loans from the 100-percent risk weight category to the 50-percent risk weight category.
04-13-92	Notice of Proposed Rulemaking on Intangible Assets, BB 92-18	Transmitted proposed rule to amend OCC's minimum capital ratio (leverage ratio) and risk-based capital guidelines with respect to the treatment of intangible assets held by national banks.
Assets		
03-01-91	Flood Disaster Protection Act--Mortgage Protection Program, BB 91-20	Transmitted a copy of the Federal Emergency Management Agency's notice of its Mortgage Portfolio Protection Program. The program provides a way to ensure that flood insurance is maintained on mortgage loans covered under the Flood Disaster Protection Act and the Comptroller's flood insurance regulation (12 U.S.C. 4001 <u>et seq.</u> and 12 C.F.R. 22).
05-09-91	Examination Guidance for Community Development Investments, BB 91-18	Transmitted revisions to OCC's commercial and consumer examination guidance for national bank investments in community development corporations and community development projects. This issuance replaced BB 91-11, which was rescinded.

Date	Title/Number	Purpose/Description
05-20-91	Nonaccrual Loan Issues, BB 91-19	Expanded certain of the regulatory and accounting policies addressed in the joint interagency statements on March 1, 1991. Bulletin also provided responses to specific questions about the accrual of income on troubled loans.
07-12-91	Highly Leveraged Transaction Definition, BB 91-26	Transmitted a proposed supervisory definition of HLTs. The proposal was published jointly by OCC, FDIC, and FRB. The three agencies requested public comment on all aspects of the definition and the criteria for determining whether a credit qualifies as financing for an HLT (deleted when OCC eliminated HLT definition).
07-30-91	Troubled Loan Workouts and Loans to Borrowers in Troubled Industries, BC 255	Provided a summary of supervisory and reporting guidance to help banks deal with troubled borrowers or nontroubled borrowers operating in troubled industries. Guidance covered some issues previously discussed in the March 1, 1991, interagency statements.
08-02-91	Final Rule, Community Reinvestment Act, BB 91-28	Transmitted the final rule amending OCC's Community Reinvestment Act of 1977 regulation (12 C.F.R. 25). The final rule, published in the <u>Federal Register</u> (56 FR 26899, June 12, 1991), became effective July 12, 1991. Also transmitted a complete copy of the Community Reinvestment Act regulation, 12 C.F.R. 25, as amended (superseded by BB 91-44).
08-13-91	Withdrawal of FFIEC Proposal on Return of a Loan With a Partial Charge-Off to Accrual Status, BB 91-31	Announced that the four bank regulatory agencies, under the auspices of the FFIEC Task Forces on Supervision and Reports, announced on July 31, 1991, that the proposed reporting standard for returning partially charged-off loans to accrual status had been withdrawn. The original proposal had been released for comment on March 18, 1991. Attached was a copy of the notice of withdrawal as it appeared in the <u>Federal Register</u> on August 5, 1991.
08-20-91	Home Mortgage Disclosure Act--Examination Procedures, BB 91-33	Transmitted revisions to OCC's <u>Comptroller's Handbook for Compliance</u> and <u>Comptroller's Handbook for Consumer Examinations</u> . The revisions to the handbooks were in compliance with the FFIEC Task Force on Consumer Compliance recommended examination procedures for Regulation C of the Home Mortgage Disclosure Act (12 C.F.R. 203).
09-17-91	Home Mortgage Disclosure Act--1991 Counties Within Metropolitan Statistical Areas, BB 91-39	Transmitted a "Counties Located Within Metropolitan Statistical Areas" listing. Reporting institutions must use the codes and numbers from the listing when preparing their 1991 Home Mortgage Disclosure Act Loan Application Registers. This list superseded the one included with Banking Bulletin 89-41 dated December 14, 1989.

Date	Title/Number	Purpose/Description
10-04-91	Proposed Changes to Regulation C, BB 91-40	Transmitted and requested comments on proposed amendments to FRB's Regulation C. The proposed amendments were mostly technical and were based on the first year's experience with data collected under the 1989 amendments to the Home Mortgage Disclosure Act. One substantive change called for financial institutions to begin using 1990 census tract numbers (instead of 1980 numbers) for reporting property location beginning January 1, 1992.
10-17-91	Home Mortgage Disclosure Act--Filing Home Mortgage Disclosure Act Loan Application Registers, BB 91-42	Announced OCC encouragement of all national banks and their majority-owned mortgage lending subsidiaries (if any) to submit their Home Mortgage Disclosure Act Loan Application Registers in machine-readable format. Explained that other federal agencies were also encouraging their supervised institutions to provide the information in the same format. Also attached an order form for OCC's Home Mortgage Disclosure Act Microcomputer Program and a booklet including information about it. This issuance replaced Banking Bulletins 90-30, October 10, 1990; 90-30, Supplement 1, December 21, 1990; and 91-04, January 28, 1991.
11-05-91	Interagency Policy Statement on Commercial Real Estate, BB 91-43 ^a	Policy provided clear and comprehensive guidance to enable supervisory personnel to review loans in a consistent, prudent, and balanced manner and to make all interested parties aware of the guidance. Guidelines (which expanded on the March 1 statement, Banking Bulletin 91-7) covered loan portfolio review procedures, indicators of troubled loans, analysis of loans and collateral values, and the review of institutions' loss allowances. Statement dated 11-07-91 was transmitted by OCC on 11-05-91.
11-13-91	Discrimination Against Real Estate Appraisers Based on Membership or Lack of Membership in Professional Organizations, AL 91-5	Transmitted a copy of the May 20, 1991, FFIEC Appraisal Subcommittee letter, which reminded institutions that selection or employment of real estate appraisers based solely upon membership in appraisal organizations or professional designations is discriminatory. Guidance was sent because the original distribution was believed to be inadequate.
11-13-91	Final Rule on Community Reinvestment Act, BB 91-44	Transmitted the final rule amending OCC's Community Reinvestment Act of 1977 found at 12 C.F.R. 25. This rule became effective July 12, 1991. Also transmitted a copy of the Community Reinvestment Act regulation, as amended, to be kept as a reference. This bulletin replaced BB 91-28.
12-03-91	Final Rule on Home Mortgage Disclosure Act, BB 91-46	Transmitted a copy of FRB's final rule amending Regulation C (Home Mortgage Disclosure 12 C.F.R. 203). The amended rule was effective January 1, 1992.

Date	Title/Number	Purpose/Description
12-03-91	Implementation of Leasing Regulations, BB 91-47	Transmitted a copy of the final rule on lease financing transactions (12 C.F.R. 23) for national banks. The action resulted from an amendment to 12 U.S.C. 24 by Section 108 of the Competitive Equality Banking Act.
12-24-91	Fair Credit Reporting Act--Interagency Policy Statement, BB 91-50	Transmitted a copy of FFIEC's news release announcing its approval of a policy statement on <u>Prescreening by Financial Institutions and the Fair Credit Reporting Act</u> . The statement was designed to provide federally insured financial institutions with greater guidance on a number of issues that have arisen regarding prescreening, including circumstances under which institutions might withdraw an offer of credit. OCC, as a member of FFIEC, adopted this policy statement.
12-24-91	Discounted Cash Flow Model, EC 259	Established the recently distributed Discounted Cash Flow Model as the only one OCC examiners may use in evaluating loans supported by real estate or other real estate owned, and outlined the appropriate use of the model.
01-10-92	Supervisory Policy Statement on Securities, BC 228 (Revised)	Transmitted FFIEC supervisory policy statement on securities activities that was adopted by the four bank regulatory agencies. The statement revised and updated the April 1988 FFIEC supervisory policy statement on the "Selection of Securities Dealers and Unsuitable Investment Practices," which OCC adopted and issued in Banking Circular 228 on April 14, 1988.
01-21-92	Notice of the Discontinuance of the Definition of Highly Leveraged Transactions, BB 92-1	Announced that the definition of HLTs was being phased out by the three federal bank regulatory agencies. It was to be discontinued after the June 30, 1992, regulatory reporting period. In the meantime, all prior delisting criteria were replaced with interim delisting criteria, which would be effective for the two remaining reporting periods. Also transmitted a copy of the interagency statement to discontinue the definition.
01-23-92	New Implementation Date for Licensed or Certified Appraisers, AL-92-1	Alerted national banks that FDICIA postponed the December 31, 1991, implementation date regarding the use of licensed and certified appraisers to no later than December 31, 1992; however, states could elect to implement their programs sooner.
02-06-92	Policy Statement on Analysis of Geographic Distribution of Lending (Temporary Insert), BB 92-3	Transmitted FFIEC's Policy Statement on Analyses of Geographic Distribution of Lending. OCC, as a member of FFIEC, had adopted this statement. The purpose of this policy statement was to articulate the agencies' view concerning the need for institutions to analyze the geographic distribution of their lending patterns as part of their Community Reinvestment Act planning process, to indicate what the agencies expect of the institutions they supervise, and to give guidance on how financial institutions can meet these expectations.

Date	Title/Number	Purpose/Description
02-12-92	Amendment to Equal Credit Opportunity Act, BB 92-5	Transmitted notice that section 223(d) of FDICIA, which amended Section 701 of the Equal Credit Opportunity Act (15 U.S.C. 1691) by adding at the end the following: "(e) Each creditor shall promptly furnish an applicant, upon written request by the applicant made within a reasonable period of time of the application, a copy of the appraisal report used in connection with the applicant's application for a loan that is or would have been secured by a lien on residential real property. The creditor may require the applicant to reimburse the creditor for the cost of the appraisal."
02-12-92	HMDA--Microcomputer Program Version 2.0, BB 92-7	Transmitted a microcomputer disk containing OCC's Home Mortgage Disclosure Act program, version 2.0, and instructions for its use.
02-20-92	Real Estate Limited Partnerships, AL-92-3	Provided advice to national banks considering investing in real estate limited partnerships as part of their community development program that they should be aware that such limited partnerships may not meet the standards for permissible community development investments under certain cited rules and regulations.
02-20-92	Allowance for Loan and Lease Losses (ALLL), BC 201 (Revised)	Required banks to maintain an ALLL that is adequate to absorb all estimated inherent losses in the bank's loan and lease portfolio. Banks must (1) maintain an effective loan review system and controls that identify, monitor, and address asset quality problems in an accurate and timely manner and (2) adequately document the bank's process for determining the level of allowance. (Note: OCC held a nationwide conference call with examiner duty stations to discuss guidance before sending it to the banks.)
02-20-92	Transfer Risk, BC 201 (Revised), Supplement 1	Provided guidance on general reserves as required by the International Development and Finance Act of 1989. The supplement underscores the importance of maintaining an adequate allowance that takes into account the transfer risk inherent in international lending activities, including lending to highly indebted countries.
03-04-92	Revised Uniform Interagency CRA Examination Procedures (Temporary Insert), BB 92-11	Transmitted the revised Uniform Interagency Community Reinvestment Act Examination Procedures and checklist. The attachments replaced the examination procedures and the worksheet contained in the <u>Comptroller's Handbook for Compliance</u> dated September 1991.
03-13-92	Shared National Credit Program, PPM 5100-2	Established OCC's policies regarding the Shared National Credit Program and delineated the roles and responsibilities of the Multinational Banking Department and districts in the administration and participation in the program. Rescinded and replaced Examining Circular 189 dated May 5, 1980.

Date	Title/Number	Purpose/Description
03-20-92	Review and Classification of Commercial Real Estate Loans, EC 234 (Revised)	Transmitted a copy of the "Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans" and rescinded Examining Circular 234 and its Supplement 1, and Banking Circular 208 and its Supplement 1, in light of the issuance of the interagency statement.
03-20-92	Guidelines for Troubled Real Estate Loans, BC 208 (Revised)	Transmitted a revised EC 234 to conform with the interagency policy statement on commercial real estate loans and provided additional clarification on the ongoing appraisal and evaluation requirements of a troubled real estate loan.
03-31-92	Guide to Fair Mortgage Lending, BB 92-17	Transmitted an FFIEC pamphlet entitled "Home Mortgage Lending and Equal Treatment." The pamphlet outlined a preventive approach for financial institutions to help ensure their compliance with the Equal Credit Opportunity Act and the Fair Housing Act. It was designed to assist financial institutions in performing self-assessments to ensure that no unlawful policies, procedures, or standards exist.
04-23-92	Real Estate Appraisal-- Final Rule, BB 92-20	Communicated OCC's final amendments to the appraisal regulations. Amendments included raising the <u>de minimis</u> amount from \$50,000 to \$100,000, allowing the use of appraisals prepared for U.S. government insurers or guarantors, and adding definitions of "real estate" and "real property."
Management		
05-09-91	Bank Purchases of Life Insurance, BC 249 (Revised)	Provided general guidelines for national banks to use in determining whether they could legally purchase a particular life insurance product.
06-14-91	Asset Management, BC 254	Guidelines identified minimum requirements that a national bank should meet in performing asset management services for other banks, savings associations, or government agencies.
06-14-91	Asset Management, EC 256	Expanded the guidance provided in Banking Circular 254 regarding national banks' and their operating subsidiaries' asset management activities. It discussed asset management contracting; provided guidelines relating to operational, financial, and legal risks associated with asset management activities; and contained sample supervisory questions addressing a national bank's ability to engage in this activity.
Earnings		
10-10-91	Dividend Policy, BB 91-41	Provided additional guidance for examiners concerning dividend payments by national banks. Updated OCC's handbook and transmitted general policy guidance on such payments.

Date	Title/Number	Purpose/Description
10-10-91	Dividend Approval Requests, EC 257	Provided guidance on processing and evaluating requests for approval of proposed dividend payments.
03-09-92	Proposed Rule on Revision of Assessment Schedule, BB 92-13	Transmitted a proposed rule to increase OCC's assessments on national banks by 27 to 30 percent. OCC also proposed to change the way the assessment schedule was indexed to compensate for imbalances caused by inflation or deflation.
Liquidity		
05-29-91	Final Rule on Amendments to Regulation D, BB 91-22	Transmitted a copy of technical amendments to FRB's Regulation D. The effective date of the amendments was April 24, 1991. Also transmitted a chart that outlined Regulation D deposit requirements, which included changes created by the technical amendments.
06-14-91	Money Market Deposit Accounts, EB 91-6	Announced that examination procedures for interest on deposits begin with step 12 on page 76 of the <u>Comptroller's Handbook for Compliance</u> . It also stated that as a result of recent bank activity involving "sweep" accounts, step 16.a. was further clarified by the addition of a new step, 16.c. Step 16.c. was included in the bulletin.
02-20-92	Regulation CC Amendments, BB 92-9	Transmitted FRB's proposed rule and interim rule amending Regulation CC to conform to amendments to the Expedited Funds Availability Act from FDICIA. FRB requested comments by March 27, 1992.
03-10-92	Stock Appraisals, BC 259	Informed all national banks of the valuation methods used by OCC to estimate the value of a bank's shares when requested to do so by a shareholder dissenting to the conversion, merger, or consolidation of his/her bank. Summarized results of appraisals were performed by OCC between January 1, 1985, and September 30, 1991.
03-27-92	Accounting for Income Taxes, BB 92-16	Provided guidance to banks that they should not adopt the provisions of Financial Accounting Standard 109 for regulatory reporting purposes until the appropriate reporting treatment has been determined.
General		
03-01-91	Joint Agency Policy Statement, BB 91-7 ^a	Transmitted the joint agency policy statements issued by OCC, FDIC, FRB, and OTS on March 1, 1991. These statements were meant to clarify certain regulatory and accounting policies of the agencies.
03-11-91	Joint Agency Statements Clarifying Certain Regulatory Policies, EB 91-2	Highlighted instances in which existing policy has been changed by the March 1, 1991, interagency statements and reiterated or clarified certain existing policies where necessary.

Date	Title/Number	Purpose/Description
03-13-91	Bank Secrecy Act-- Reporting Suspicious Transactions, BC 251	Stated requirements for financial institutions in instances of cash transactions exceeding \$10,000 and for those that seem suspicious in nature. The circular provided the Internal Revenue Service (IRS) Criminal Investigation Division telephone number for reporting suspicious transactions.
04-08-91	Civil Money Penalty, PPM 5000-7 (Revised)	Set forth OCC's policies governing the initiation, processing, and assessment of a civil money penalty. It replaced PPM 5000-7 (rev) dated January 28, 1988.
04-08-91	Civil Money Penalties, BC 253	Provided guidance to OCC's national bank examiners, national banking institutions, and their institution-affiliated parties regarding the use of OCC's civil money penalty authority.
04-18-91	Supervisory Monitoring System Security, EB 91-3	Announced that the policy toward the supervisory monitoring system security had changed. The change allowed examiners and supervision personnel better access to bank information in the supervisory monitoring system security.
05-17-91	Peer Review Program, PPM 5000-29	Established OCC's peer review program for bank supervision. Described the peer review process and defined areas of responsibility for the Office of the Chief National Bank Examiner, district management, the peer review teams, and team leaders. This issuance eliminated PPM 5400-6.
05-29-91	Commentary on Final Amendments to Regulation Z, BB 91-23	Transmitted a copy of final amendments to FRB's official staff commentary to Regulation Z. The effective date of the amendments was April 1, 1991, but compliance was optional until October 1, 1991.
05-29-91	Interim Rule on Real Estate Settlement and Procedures Act (RESPA)-- Section 6 Amendments, BB 91-24	Transmitted interim rule and request for comments, as published in the <u>Federal Register</u> , implementing the provisions of Section 6 of RESPA (12 U.S.C. 2601 <u>et seq.</u>). Section 941 of the Cranston-Gonzalez National Affordable Housing Act amended RESPA by adding a new section 6, which set forth procedures regarding the transfer of mortgage servicing for any federally related mortgage loan. Comments on the rule were due by June 25, 1991.
06-20-91	Examination Review Process, EB 91-7	Bulletin provided guidance that examiners should review PPM 5000-28 at their next meeting with the bank's board of directors in order to promote better understanding of this policy.
06-20-91	Examination Review Process, BB 91-25	Bulletin issued to national banks reminding and encouraging them to use the established procedures (in PPM 5000-28) that banks may follow to request a review of examiners' conclusions. Guidance also permitted banks to request a review if they question the application of an OCC policy in the examination of their institution.

Date	Title/Number	Purpose/Description
07-24-91	Final Rule, 12 C.F.R. 21, Minimum Security Devices and Procedures, BB 91-27	Transmitted a copy of the final rule that was published in the <u>Federal Register</u> on June 28, 1991, and became effective on July 29, 1991. The rule, which amended 12 C.F.R. Part 21 (Minimum Security Devices and Procedures), implemented Section 911 of FIRREA. This section amended the Bank Protection Act of 1968 (12 U.S.C. 1881 <u>et seq.</u>) by eliminating financial institutions' periodic reports on security devices and procedures. The amended Part 21 requires that such reports be presented annually to the bank's board of directors.
08-13-91	OCC Banking Issuances Listing, BB 91-30	Transmitted current listing of OCC banking circulars and bulletins through August 1, 1991. This listing replaced those that were distributed with Banking Bulletin 90-11 dated April 6, 1990 (deleted when updated listing issued).
08-20-91	Real Estate Settlement Procedures Act-- Examination Procedures, BB 91-32	Transmitted a temporary insert to OCC's <u>Comptroller's Handbook for Compliance</u> . The insert contained revised examination procedures that should be used to ensure compliance with the Real Estate Settlement Procedures Act.
08-26-91	Uniform Rules of Practice and Procedure Governing Administrative Enforcement Proceedings, BB 91-34	Transmitted an August 9, 1991, copy of the <u>Federal Register</u> in which OCC published its revised rules of practice and procedure governing administrative enforcement proceedings. These rules were codified in 12 C.F.R. Part 19.
09-17-91	Bank Secrecy Act-- Modified Identification Verification Procedures, BB 91-38	Transmitted a Treasury letter and guidance on "Modified Identification Verification Procedures." The modifications outlined exception guidelines to the Bank Secrecy Act recordkeeping and reporting requirements for law enforcement and revenue officers who are performing their official duties.
10-28-91	Supervision of Federal Branches and Agencies, PPM 5130-1 (Revised)	Delineated the roles and responsibilities of the International Banking and Finance Department and the districts in the supervision of branches and agencies of foreign banks.
11-13-91	Misuse of Form PD 1832, AL 91-6	Announced that there have been several instances of misuse of the Form PD 1832, "Special Form of Detached Assignment for United States Registered Securities," and explained appropriate instances for the form's use.
11-14-91	Enforcement Policy, PPM 5310-3 (Revised)	Discussed OCC enforcement policy covering the formal and informal enforcement actions available to the agency.
11-18-91	OCC Supervision Policy, EC 258	Outlined OCC's policy for the supervision of national banks and provided examining personnel with the framework necessary to examine banks effectively and communicate their findings.

Date	Title/Number	Purpose/Description
11-27-91	Semiannual Agenda of Regulatory Actions, BB 91-45	Transmitted a copy of OCC's Semiannual Agenda of Regulatory Actions. It provided a short description of the regulations that were under review or scheduled for review in the coming months as well as a description of completed regulatory actions.
12-02-91	Notice of Comptroller of the Currency Fees for 1992, BB 91-48	Informed all national banks of fees charged by OCC for 1992.
12-23-91	OCC Supervision Policy, BB 91-49	Transmitted an OCC Examining Circular outlining the agency's supervision policy. The circular was intended to provide the agency's examining personnel with the framework necessary to examine banks effectively and communicate their findings.
12-31-91	Definitions of Informal and Formal Enforcement Actions, PPM 5310-3 (Revised), Supplement 1	Provided definitions of the informal and formal enforcement actions covered in PPM 5310-3 (revised), which was issued on November 14, 1991. These definitions were requested by the OCC management meeting in Kansas City.
01-03-92	Enforcement Policy, BC 256	Transmitted an OCC internal policy and procedure directive (Enforcement Policy, PPM 5310-3, revised, Nov. 14, 1991). Policies were designed to provide timely and effective responses whenever OCC deems enforcement action necessary to address safety and soundness or compliance issues identified as part of the supervisory process.
01-06-92	Strategic Plan for 1992, PPM 1000-7 (Supplement 5)	Transmitted OCC's 1992 Priority Objectives, which, together with district or division budget and staffing plans, described what OCC expected to achieve during the year and the resources that would be available to do it.
01-15-92	Communication of Policy Clarifications, EB 92-1	Established procedures ensuring that interagency policy statements and OCC banking issuances related to the supervisory impact on sound credit availability were effectively communicated to bankers. Also, in part, these guidelines were intended to promote consistency among regulatory agencies and to avoid misunderstandings about policies that might hinder the availability of credit to sound borrowers.
01-23-92	IRS Revised Currency Transaction Report, AL 92-2	Announced that IRS has revised its Currency Transaction Report, IRS Form 4789, effective September 1991. The revised form will expire on September 30, 1994. The new form is now available from IRS for distribution to and use by financial institutions.
01-24-92	Interagency EDP Examination, Scheduling, and Report Distribution Policy, EC 261	Transmitted a joint policy statement by FFIEC. The policy updated procedures for joint or rotated examinations of data centers providing services to insured financial institutions supervised by more than one federal regulatory agency. It also provided policy for the administration of the Multiregional Data Processing Servicer Program. Replaced BC 109 dated May 31, 1978, and its supplement.

Date	Title/Number	Purpose/Description
01-29-92	Fraudulent Use of Debt Security Certificates in the National Banking System, BB 92-2	Alerted national banks to the possibility of fraudulent use of canceled, improperly canceled, and uncanceled debt security certificates as collateral for loans or to receive payments from banks as paying agents.
02-12-92	Interagency EDP Examination, Scheduling, and Report Distribution Policy, BB 92-6	Announced that BC 109 dated May 31, 1978, and its supplement dated May 8, 1979, have been rescinded. The circulars described FFIEC procedures for rotated EDP examinations of nonbank servicers and the Multiregional Data Processing Servicers program. EC 261, dated January 24, 1992, contains the revised procedures for OCC's continued participation in rotated EDP examinations and the program.
02-12-92	Adoption of New Transfer Agent Rules by SEC, BB 92-8	Informed registered transfer agents of the adoption of Rule 17Ad-15 by SEC. This new rule affects all transfer agents. The rule (17 C.F.R. 240.17Ad-15), effective February 24, 1992, requires every transfer agent to establish written standards and procedures pertaining to the acceptance of signature guarantees.
02-20-92	Request for Comment on Presidential Regulatory Initiative, BB 92-10	Transmitted a <u>Federal Register</u> Notice requesting comment by March 10, 1992, on OCC regulations, policies, and procedures that should be improved or eliminated because they impose a substantial burden. The request was an outgrowth of the President's regulatory review program to promote economic growth and reduce the burden of government regulation.
02-21-92	Update of Implementing Guidelines to the Uniform Interagency Trust Rating System, TEC 14, Supplement 1	Provided the average Federal Funds Rates for each of the past 5 years. This figure is to be used to calculate the credit for deposit balances of trust department funds when evaluating the earnings, volume trends, and prospects component of the Uniform Interagency Trust Rating System in banks that do not make internal income allocations.
02-26-92	Examination Review Process, BC 257	Circular transmitted a revised copy of PPM 5000-28 to all banks and examining offices. Guidance established procedures that banks may follow to request a review of an examination finding or supervisory action and described levels of review available to resolve substantive disagreements between national banks and OCC personnel.
02-26-92	Examination Review Process, PPM 5000-28 (Revised)	This issuance revised the original PPM 5000-28 issued 04-30-91. It described the levels of review available to resolve exam-related disagreements and the procedures for requesting a review.

Date	Title/Number	Purpose/Description
03-12-92	Capital Markets Training Program, PPM 3220-22	Established policies and responsibilities regarding participation in the Capital Markets Training Program. The program was designed to increase expertise in all aspects of capital markets, such as funding, interest rate risk management, investments such as mortgage-backed securities, off-balance sheet items, and other related activities. It replaced the Investment Securities Training Program, PPM 3220-6, issued October 1, 1983.
03-18-92	Disclosure of Mortgage Broker Fees Under RESPA, BB 92-14	Transmitted an unofficial interpretation of mortgage broker fee disclosure requirements under RESPA (12 U.S.C. 2601 <u>et seq.</u>) issued by the Department of Housing and Urban Development, the agency with primary regulatory and enforcement authority under RESPA.
03-18-92	RESPA--Revised Examination Procedures (Temporary Insert), BB 92-15	Transmitted revisions to OCC's <u>Comptroller's Handbook for Compliance</u> and <u>Comptroller's Handbook for Consumer Examinations</u> , which meet FFIEC's approved examination procedures for the Real Estate Settlement Procedures Act (12 U.S.C. 2601, <u>et seq.</u>) and the Housing and Urban Development Act of 1968 (12 U.S.C. 1701), Section 577, Housing Counseling. These revisions were necessary to implement the changes required by the Cranston-Gonzalez National Affordable Housing Act.
04-09-92	South Africa Freeze, BC 211 (Revised)	Transmitted a copy of the final rule (31 C.F.R. 545.099--Lifting of Sanctions) issued by the Department of the Treasury, Office of Foreign Assets Control, that codifies Executive Order 12769, which repealed two executive orders concerning the Comprehensive Anti-Apartheid Act of 1986.
04-09-91	Multiregional Data Processing Servicers, EC 261, Supplement 1	Supplemented Multiregional Data Processing Servicer policy and updated the list of vendors in the program. This replaced PPM 5220-3, Supplement 1 (Revised), dated October 3, 1990.
04-09-92	Reimbursement Pursuant to Section 108 of the Truth in Lending Act (Federal Court Decision), EC 262	Announced the interpretation, by the U.S. Court of Appeals for the Eighth Circuit, of the term "immediately preceding examination." The interpretation was contrary to that of OCC. The circular stated that OCC would continue to operate under its original interpretation except in states covered by the Eighth Circuit.

*One of two major comprehensive interagency policy statements discussed in the report.

Table II.5: Regulatory Guidance Related to Safety and Soundness Policies for Thrift Institutions Supervised by OTS, March 1991 Through April 1992

Date	Title/Number	Purpose/Description
Capital		
04-08-91	Leverage Ratio and Capital Plans	Announced that OTS would soon publish a Notice of Proposed Rulemaking to revise the leverage ratio requirement for savings associations to be no less stringent than that adopted by OCC for national banks. If adopted as proposed, the leverage ratio requirement would be 4 percent or higher for all but the most highly rated savings associations. The memo suggested that the regions should inform associations that fail their current capital standards to assume such a leverage ratio requirement in designing their capital plans.
04-16-91	Miscellaneous Capital and Capital-Related Amendments	Notification of proposed rule which would (1) amend OTS regulations by clarifying and removing obsolete or incorrect references to OTS' interim final rule setting minimum regulatory capital requirements for savings associations, (2) correct citation errors and add language clarifying the regulations contained in its risk-based capital regulation and the capital distribution regulation, and (3) clarify the treatment of sales with recourse and maturing capital instruments for purposes of the capital regulations and the status of savings associations in compliance with an approved capital plan. Final rule issued 07-29-92.
04-22-91	Leverage Ratio Requirement	Notification of final rule which would subject thrifts to same leverage ratio requirements as banks (required by statute) and would clarify numerous capital-related issues, including the important question of when a thrift is "in compliance" with capital requirements.
04-26-91	Capital Requirements on Recourse Arrangements (Interim), RB 26	Interim guidance for the determination of capital requirements on recourse arrangements, which, in general, calls for capital to be required equal to the value of the underlying assets.
05-24-91	Capital Adequacy, TB 38-2a	Informed thrifts operating under capital or accounting forbearances that such forbearances should be eliminated in determining whether the thrifts comply with the new capital regulation.

Date	Title/Number	Purpose/Description
06-21-91	Capital Plans	Announced that, effective immediately, the Washington concurrent review process for the approval of capital plans for larger institutions was discontinued. Regional directors could act on all capital plan submissions, including those that were in the process of a concurrent review. In order to assist Washington staff in monitoring capital actions for nationwide consistency, regional directors were asked to submit copies of analyses and letters approving or denying capital plans, including first-time submissions, amendments, and resubmissions; letters terminating existing capital plans; and any regional management reports on capital plans. This request covered actions taken after this date.
11-19-91	Capital Adequacy, TB 38-3a	This document transmitted policies regarding minimum capital standards that would be applied to significant voluntary unassisted transactions, including acquisitions of control, mergers, mutual-to-stock conversions, and branch purchases.
11-19-91	Capital Adequacy, TB 50	This document required that thrifts with a 4 or 5 MACRO rating could not enter into third-party contracts outside the normal course of business unless approved by the regional director. (OTS rates the safety and soundness of savings institutions using the components <u>m</u> anagement, <u>a</u> sset quality, <u>c</u> apital, <u>r</u> isk management, and <u>o</u> perating results.)
01-17-92	Supervisory Conversions	Notification of proposed rule which would make it easier for mutual thrifts that fail their capital requirements to recapitalize by converting to stock form. Final rule issued 11-02-92.
01-23-92	Policy Clarifications Related to the Capital Rule	To ensure that OTS policies and actions did not inadvertently or unnecessarily curtail credit availability, the memo set forth adopted guidance on two specific issues--valuation allowance on assets subject to the "deduction from capital" requirement and treatment of thrift premises.
04-09-92	Policy Clarifications on Capital Rule: Follow-Up to January 23, 1992, Memorandum	Answered questions that arose on how to implement policies first discussed in a 01-23-92 OTS memo that clarified several policies relating to deductions from capital and the definition of "premises."
04-13-92	Residential Bridge Loans	Reduced the risk-weighted capital requirement for conservatively underwritten construction loans on presold homes. Adopted a rule that banking agencies had proposed.

Date	Title/Number	Purpose/Description
04-13-92	Computation of Capital Deduction for Assets With General Valuation Allowances TB-38-4	Guidance provided that OTS, in computing regulatory capital, would offset general valuation allowances against the deduction requirement applicable to investments in and loans to certain subsidiaries and equity investments.
04-13-92	Regulatory Capital: Intangible Assets	Notification of proposed rule which would amend the risk-based capital regulation to set forth the types of intangible assets that savings associations may include in calculating capital for purpose of compliance with their tangible capital, leverage ratio, and risk-based capital requirements. The proposal also set forth certain limitations and other requirements that would apply to qualifying intangible assets under the proposed rule.
Assets		
04-26-91	Qualified Thrift Lender Test	Notification of proposed rule which would revise OTS' qualified thrift lender regulations to implement amendments made by Title III of FIRREA. The proposed rule imposed a more restrictive definition of "qualified thrift investments" and required savings associations to maintain a higher percentage of these investments.
07-11-91	Refinancing Commercial Real Estate Loans	Memo reiterated policy to encourage savings associations to work with sound borrowers so that credit availability is not inappropriately reduced.
10-18-91	Purchased General Valuation Allowances	Announced that, because instructions for reporting of some purchased general valuation allowances were ambiguous before a clarification was issued in September 1991, institutions reporting purchased general valuation allowances on the basis of an alternative interpretation of the policy consistent with generally accepted accounting principles (GAAP) could continue to do so for assets that were recorded before July 1, 1991.
11-07-91	Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans ^a	Policy provided clear and comprehensive guidance to enable supervisory personnel to review loans in a consistent, prudent, and balanced manner and to make all interested parties aware of the guidance. Guidelines (which expand on the March 1 statement) covered loan portfolio review procedures, indicators of troubled loans, analysis of loans and collateral values, and the review of institutions' loss allowances.

Date	Title/Number	Purpose/Description
11-07-91	Implementation of New Guidance on Commercial Real Estate Loans	Reviewed the major points of the March 1 joint policy statement and transmitted a copy of the July 11, 1991, issuance addressing the refinancing of commercial real estate loans. The memo also summarized the major points of the November 7 interagency policy statement and requested that regional supervisory staff review all three documents. The memo suggested that these statements be discussed with institutions' boards of directors during discussions of examination findings; that reviewing officials should keep these policies in mind when reviewing examinations; and that statements should be included in examination reports, verifying that these steps were taken.
11-22-91	Federal Financial Institution Regulators' Examination Staff Conference (memo to all conference participants)	Purpose of conference was to review and discuss the recently issued interagency policy statement on the review and classification of commercial real estate loans and to communicate other initiatives and policies related to credit availability.
01-10-92	Supervisory Statement of Policy on Securities Activities, TB-52	Adopted FFIEC statement on securities activities. The new guidance addressed the selection of securities dealers, required depository institutions to establish prudent policies and strategies for securities transactions, described securities trading and sales practices that are unsuitable when conducted in an investment portfolio, indicated characteristics of loans held for sale or trading, and established a framework for identifying when certain mortgage derivative products are high-risk mortgage securities that must be reported in a "trading" or "held for sale" account.
04-13-92	Exclusive Leases	Proposal to remove 20-year-old rule limiting leasing arrangements with shopping centers. No similar rule for banking agencies.
04-13-92	Appraisals	Notification of final amendments to the appraisal regulations (from FIRREA) (1) eliminated the requirement for certified or licensed appraisals on real estate transactions having a value of \$100,000 or less and (2) defined "real estate" and "real property" so as not to apply to mineral rights, timber rights, or growing crops.
Management		
07-25-91	Transactions With Affiliates and Subsidiaries, Loans to One Borrower Limitations	Final rule pertaining to transactions between savings associations and their subsidiaries and affiliates, and loans-to-one borrower limitations.

Date	Title/Number	Purpose/Description
08-05-91	Agency Approval of Officers and Directors	Proposed rule which would implement FIRREA requirement to review and approve new officers and directors of troubled depository institutions and their holding companies. The banking agencies have already adopted final rules.
11-08-91	Executive Compensation, RB 27	Guidance to regulatory personnel for the review of employment contracts. Clarified policy relating to executive compensation and employment contracts.
04-09-92	Loans to Executive Officers, Directors, and Principal Shareholders of Savings Associations	Notification of proposed rule which amended regulations pertaining to insider transactions by adopting a rule governing extensions of credit by savings associations to their executive officers, directors, and principal shareholders, and to related interests of such persons. Final rule issued 10-06-92.
04-09-92	Operating Subsidiaries	Notification of proposal which allowed thrifts to move activities permissible for thrifts to separate subsidiary. Proposal did not expand range of permissible activities; national banks have had authority for years. Final rule issued 10-29-92.
04-13-92	Fidelity Bonds	Required thrifts to obtain same level of fidelity bond insurance coverage as banks. Previously, thrifts had higher standards.
Earnings		
08-19-91	Tax Issues, TB 49	Discussed the accounting for income tax benefits associated with bad debts. Also attached SEC's Staff Accounting Bulletin No. 91, which provided interim guidance.
Liquidity		
10-23-91	Excessive Interest Rate Risk Exposure Levels	Transmitted a table listing private sector institutions that might be excessively exposed to interest rate risk. The table was based on data reported on the June 1991 Thrift Financial Report and the results of OTS Market Value Model calculations contained in the Schedule 9 Report on the Thrift Time Series. The memo also provided a definition of an institution that is excessively exposed to interest rate risk and instructions for using the table.
General		

Date	Title/Number	Purpose/Description
03-01-91	Joint Agency News Release, "Regulators Issue Joint Supervisory Policies" ^a	Guidance was designed to contribute to a climate in which banks and thrifts make loans to creditworthy borrowers and work constructively with borrowers experiencing financial difficulties, consistent with safe and sound banking practices. Included guidelines to clarify regulatory and accounting policies pertaining to such issues as (1) recognition of income for certain nonperforming loans, (2) valuation of real estate loans in exams, and (3) guidance on other issues relating to nonaccrual assets and formally restructured debt.
03-12-91	Revised OTS 1991 Examination Strategy	Transmitted the revised OTS 1991 examination strategy. The revisions applied to institutions with assets in excess of \$1 billion and revised the requirement to perform an additional limited scope examination during the first half of the year for those institutions that were scheduled for a full scope, risk-focused examination during the second half of the year. The limited scope examination is now optional.
03-27-91	Special Limited Examination Program	Transmitted the general guidance and procedures for the special limited examination program. Examiners were instructed to follow these procedures for special limited examinations in accordance with the OTS 1991 examination strategy.
03-29-91	Implementation of 12-10-90 Delegation to Release Certain Confidential Information	Provided initial policies and procedures from the Midwest Region for implementing a December 10, 1990, Delegation to Release Certain Confidential Information. The Midwest Region's policies and procedures were provided to assist other regions in developing their own implementing policies and procedures for the delegation.
03-29-91	Uniform Accounting Standards	Notification of proposed rule which would revise and consolidate OTS accounting standards. The rule would replace several prescriptive rules that are no longer necessary with GAAP standards and would make thrift standards more consistent with bank standards. Final rule issued 09-02-92.
04-01-91	Formal Enforcement Actions and Compliance Examinations	Requested that regional directors ensure that appropriate supervisory actions, including formal enforcement measures such as cease and desist orders and civil money penalties, are being taken against associations with poor levels of compliance with consumer protection and public interest laws. Preliminary examination data indicated that such measures did not appear to be used as often as might be warranted.
04-09-91	Quality Assurance Program	Reaffirmed OTS regional operation's commitment to the Quality Assurance Program and transmitted to the regions copies of the final <u>Quality Control Handbook</u> and the National 1991 Quality Program time frames.

Date	Title/Number	Purpose/Description
04-12-91	Transmittal of RTC Conservatorship Examinations	Announced a more formalized transmittal of RTC conservatorship examination reports to RTC. The new transmittal process would include a cover memorandum highlighting any significant issues uncovered during the exam process.
05-23-91	Industry Recordkeeping	Indicated that recent examination experience and transfer of thrifts to RTC had shown that too many thrifts' books and records were in poor condition. Memo stressed that a thrift's books and records are very important and therefore must be maintained in good condition. Memo urged regional examiners not to hesitate to use the full range of enforcement tools, including civil money penalties, to correct the situation.
05-28-91	Enforcement Time Standards	A recently completed Inspector General's audit recommended that OTS develop and implement appropriate national time standards based on revised, event-specific guidelines for enforcement actions. The audit also recommended that office directors should be held accountable for meeting established standards and for ensuring written justification for those actions not meeting the standards. This memo communicated the standards adopted in response to the audit.
05-29-91	TB-12 Compliance	Memo introduced an oversight program to ensure compliance with Thrift Bulletin 12 (TB 12), "Mortgage Derivative Products and Mortgage Swaps." TB 12 established guidelines for the use of "high-risk" mortgage derivative products. The guidelines required that the board of directors adopt and enforce a written policy authorizing and governing the use of these instruments. The guidelines also required an association to conduct a sensitivity analysis of the expected performance of the instruments before purchase and to monitor and document their performance after purchase. This memo requested that the regions submit the required documentation for three institutions in their region indicating that they had done the above.
05-31-91	RB-18 Compliance	Memo provided a listing of thrifts without any enforcement actions and MACRO ratings of 3, 4, or 5, as of May 10, 1991. The information was provided so that regional directors could determine whether the waiver of enforcement action required by RB-18 (Regulatory Bulletin) had been documented; correct the listing to reflect instances where enforcement action was taken but not entered into the monitoring system; and initiate enforcement action if necessary. The memo asked that regional directors evaluate thrifts in their regions and report back within 45 days.

Date	Title/Number	Purpose/Description
06-04-91	Supplemental Authorization to Release Confidential Information	Supplemented December 10, 1990, memorandum regarding the release of confidential regulatory information under certain provisions to FRB. This memorandum expanded regional directors' authority to release MACRO ratings, examination dates, and the status of capital plans, in response to requests from FRB regarding Daylight Overdrafts.
06-18-91	Holding Company Examination Interim Procedures	Announced that the streamlined holding company examination procedures developed by the Affiliates Task Force were approved by the Policy Review Committee on June 4, 1991. The memo transmitted the procedures, highlighting major changes from current procedure, and indicated that they should be implemented no later than July 1, 1991.
06-28-91	Minimum Security Devices	Notification of proposed rule which revised regulation on minimum security devices and procedures to reflect changes in the technology of security devices, and to implement changes made by FIRREA.
07-03-91	Specialized Accreditation Process	Transmitted a booklet describing OTS' new accreditation programs for Compliance and EDP personnel. The Compliance designation is Federal Compliance Regulator and the EDP designation is Federal Information Systems Regulator. The memo announced that the Specialized Accreditation Programs would be fully effective on April 1, 1992. After that date, individuals leading examinations and performing the other functional qualifications for accreditation must either be accredited or exempt. Also provided other key dates for the program.
07-12-91	OTS Regional Structure and Regulatory Notices	Discussed and attempted to clarify confusion resulting from OTS' field reorganization regarding the proper OTS titles and addressees that should appear on certain notices required by different regulations.
07-18-91	Initial Regulatory Plan Guidelines	Transmitted the initial release of guidelines for the narrative section of the automated Regulatory Plan. Also transmitted the schedule for implementing the remaining sections of the Regulatory Plan.
08-06-91	"Problem" Savings Associations	Provided a standard definition of the term "problem association" to avoid confusion about the use of the term.
08-12-91	Rules of Practice and Procedure in Adjudicatory Proceedings	Notification of final uniform administrative hearing rules for practice and procedures for formal enforcement actions.
08-13-91	Report of Service Corporations/Subsidiaries Engaging in Insurance Brokerage Activity	In light of several recent failures of insurance companies, this memo outlined the appropriate scope of examinations of institutions and their affiliates engaging in insurance activities. It also transmitted a "Report of Subsidiaries Engaging in Insurance Brokerage Activity" to facilitate future exams.

Date	Title/Number	Purpose/Description
09-13-91	Supervisory Profile Installment of the Regulatory Guidelines	Transmitted the updated release of the regulatory plan guidelines that includes the supervisory Profile Data System installment. The first phase of implementation occurred on July 25, 1991. The second phase, scheduled for September 18, 1991, was to update the system with activation of the Supervisory Profile section, which included implementation of the streamlined Profile Data System. Also provided the schedule for the remaining implementation of the Regulatory Plan.
09-13-91	Thrift Administration Review Program	The Thrift Administration Review Program was designed to address deficiencies in internal controls, books, records, and loan files. One of the major components within the program was to proactively determine if deficiencies exist in OTS Group IV institutions and if so, to make corrections. This memo outlined measures that OTS would implement in Group IV institutions and transmitted for comment a copy of a questionnaire to be distributed to management in Group IV institutions.
09-23-91	Holding Company Reporting Requirements	Notification of proposed rule which amended reporting requirements for holding companies to reflect changes necessitated by FIRREA. The rule also consolidated filing instructions for several forms. Final rule issued 08-10-92.
09-26-91	New Procedures for Examination Workpaper Controls	Requested that regional directors ensure compliance with recommendation 6 of the Inspector General's recent audit. Recommendation 6 focused on the issue of storing workpapers at thrifts and the necessary safeguards for doing so. The memo stated that this issue would be the subject of an Inspector General's follow-up audit to be held sometime in 1992.
09-27-91	Mid-Year Examination Update	Transmitted a variety of attachments to all examination staff designed to address concerns identified by the Inspector General, regional quality assurance teams and OTS regional management. The intention was to restate and redefine general examination guidelines, clarify loan sampling procedures, affirm examination time frames, establish guidelines for an examination time frames matrix, convey changes in OTS's holding company exam approach, and update the role of regulatory plans. The materials embodied in the attachments were ultimately to be incorporated into the regulatory handbook.
10-02-91	Distribution of Holding Company Reports to the FDIC	Because holding company examinations are conducted in conjunction with the lead thrift examination, and the holding company examination specifically focuses on the holding company's effect on its subsidiary association, FDIC should receive copies of all holding company examination reports. In light of this, this memo instructed regional directors to instruct all holding companies that they should provide all examination responses and other examination-related correspondence to FDIC as well as OTS.

Date	Title/Number	Purpose/Description
10-21-91	Rescission of Memoranda and Bulletins RB 1-1a	To streamline and clarify long-standing guidelines provided to thrift institutions and regulatory staff, OTS has either incorporated guidance into its regulatory handbook or determined it to be obsolete.
10-28-91	New Preliminary Examination Response Kit	Transmitted the newly revised Preliminary Examination Response Kit and explained the major objectives behind the revisions.
11-07-91	Revised Compliance, EDP, and Trust Policies and Procedures	Conveyed the revised OTS policies and procedures for specialized program examinations, which were developed from the work of the Compliance Task Force.
11-25-91	Random Audit Program	To ensure that examiners are using valuation techniques that are consistent with the interagency policy statements, OTS implemented a random audit program to determine how examiners are using appraisals (and any management adjustments to the appraisals) in the loan evaluation process. This audit supplemented the current regional office review of Reports of Examination for reasonableness of conclusions and recommendations and for consistency with supervisory policy.
12-09-91	RTC Conservatorship Examinations	Revised the OTS conservatorship examination program that was sent to regional directors on October 9, 1990.
01-22-92	Implementation of the Report of Examination Confirmation Statements	This memo reiterated guidance for ensuring that the 03-01-91 and 11-07-91 interagency policy statement requirements have been met by following examination procedures, communicating policy statements to financial institutions, and confirming (by a signed statement) that exam report information is consistent with the interagency policies.
01-30-92	Modifications to the OTS Exam Strategy, Calendar Day and Person Day Requirements	Communicated several modifications to the OTS examination strategy. The modifications were made in part to incorporate guidance from the Mid-Year Examination Update dated September 27, 1991. The original thrust of the strategy remains the same: to continue to require an on-site presence in every institution during each calendar year.
03-12-92	Savings Association Membership, Federal Home Loan Bank System	Notification of proposed rule which would require all savings associations to be members of the Federal Home Loan Bank System. Under review by OTS.
04-02-92	Monthly Thrift Financial Report	This transmittal eliminated the Monthly Thrift Financial Report, which reduced thrift costs \$4 million and OTS costs by \$500,000.

Date	Title/Number	Purpose/Description
04-06-92	Supervisory Review Process	This memo described a supplemental process whereby bank and thrift institutions can, on a confidential basis, request a review of actions that occur during an examination. The process is to help resolve disagreements that arise during the exam process and ensure open lines of communication between thrifts and OTS.
04-09-92	Policy Statement on Branching	Notification of final rule which would permit nationwide branching for federally chartered thrifts to the full extent permitted by statute.
04-20-92	Applications Restructuring	Notification of final rule which would substantially reduce application/approval requirements in many areas, especially for healthy thrifts. Effective 06-30-92.

*One of two major comprehensive interagency policy statements discussed in the report.

Table II.6: Regulatory Policy Guidance Related to the Safety and Soundness of Financial Institutions, by Regulator and Selected Subject, March 1991 Through April 1992

FDIC	FRB	OCC	OTS
Credit availability ^a			
<p>Joint Statement on Supervisory Policies, PR-30-91, FIL-8-91 (03-01-91)^b</p> <p style="text-align: center;">* * * *</p> <p>Real Estate Loan Standards Could Ease Credit Crunch, PR-58-91 (04-18-91)</p> <p>In a speech, the FDIC Chairman cited a lack of clear standards for real estate lending as a contributing cause to the credit crunch. He urged banking and real estate industry trade groups to work with regulators in developing unambiguous lending standards that could serve the dual purpose of preventing losses and freeing up credit.</p>	<p>Federal Reserve Press Release and Interagency Policy Statement on Credit Availability (03-01-91)^b</p> <p>Guidance was designed to contribute to a climate in which banks and thrifts make loans to creditworthy borrowers and work constructively with borrowers experiencing financial difficulties, consistent with safe and sound banking practices. Included guidelines to clarify regulatory and accounting policies pertaining to such issues as (1) recognition of income for certain nonperforming loans, (2) valuation of real estate loans in exams, and (3) guidance on other issues relating to nonaccrual assets and formally restructured debt.</p>	<p>Joint Agency Policy Statement, BB 91-7 (03-01-91)^b</p> <p style="text-align: center;">* * * *</p> <p>Joint Agency Statement Clarifying Certain Regulatory Policies, EB 91-2 (03-11-91)</p> <p>Highlighted instances in which existing policy was changed by the March 1, 1991, interagency statements and reiterated or clarified certain existing policies where necessary.</p>	<p>Joint Agency News Release, "Regulators Issue Joint Supervisory Policies" (03-01-91)^b</p>

FDIC	FRB	OCC	OTS
<p>Refinancing Commercial Real Estate, #91-092 (06-17-91)</p> <p>Provided guidance to examiners regarding refinancing of medium term commercial real estate loans. Established policy guidance that financial institutions, whether they have a concentration in real estate or not, can choose to refinance a sound mini-perm (5- to 7-year) real estate development loan without being automatically criticized for doing so.</p> <p style="text-align: center;">* * * *</p> <p>Real Estate Loans and Nonaccrual Loans, #91-120 (07-29-91)</p> <p>Transmitted the Federal Reserve's memo on examination guidelines on real estate loans and reporting issues pertaining to nonaccrual loans--SR Letter 91-16 (FIS), 07-16-91. The guidance, which represented FRB's supplement to the 03-01-92 interagency statement on the same subject matter, was sent to FDIC regional staff for informational purposes.</p>	<p>Supplementary Exam Guidelines on Real Estate Loans and Certain Reporting Issues Pertaining to Nonaccrual Loans, SR Letter 91-16 (07-16-91)</p> <p>Reiterated the basic principles of the March 1 interagency statement on credit availability, specifically, that institutions should work with creditworthy borrowers to meet their financing needs. Issues addressed included the prudent management of asset concentrations, the refinancing and rollover of real estate construction loans, and the restructuring of nonaccrual assets subject to Financial Accounting Standards Board's Statement No. 15.</p>	<p>Nonaccrual Loan Issues, BB 91-19 (05-20-91)</p> <p>Expanded certain of the regulatory and accounting policies addressed in the joint interagency statements on 03-01-91. Bulletin also provided responses to specific questions about the accrual of income on troubled loans.</p> <p style="text-align: center;">* * * *</p> <p>Troubled Loan Workouts and Loans to Borrowers in Troubled Industries, BC 255 (07-30-91)</p> <p>Provided a summary of supervisory and reporting guidance to help banks deal with troubled borrowers or nontroubled borrowers operating in troubled industries. Guidance covered some issues previously discussed in the March 1, 1991, interagency statements.</p>	<p>Refinancing Commercial Real Estate Loans (07-11-91)</p> <p>Memo reiterated policy to encourage savings associations to work with sound borrowers so that credit availability would not be inappropriately reduced.</p>

FDIC	FRB	OCC	OTS
<p>Nonaccrual Loans and Other Troubled Loans, #91-136 (09-05-91)</p> <p>Distributed copies of (1) FFIEC's notice announcing the withdrawal of the proposed reporting standard for the return of a partially charged-off nonaccrual loan to accrual status and (2) OCC's BC-255, which contained supervisory and reporting guidance on certain troubled loan issues.</p>	<p>Classification Guidelines for an Asset When a Substantial Portion Has Been Charged Off, SR Letter 91-18 (FIS) (09-23-91)</p> <p>Addressed the classification of loans when a substantial portion has been charged off. This guidance reiterated long-standing policy in this area and presented a classification framework for a partially charged-off loan that is intended to reflect the repayment prospects of the remaining recorded balance of the loan.</p>	<p>Withdrawal of FFIEC Proposal on Return of a Loan With a Partial Charge-Off to Accrual Status, BB 91-31 (08-13-91)</p> <p>Announced that the four bank regulatory agencies, under the auspices of the FFIEC Task Forces on Supervision and Reports, announced on July 31, 1991, that the proposed reporting standard for returning partially charged-off loans to accrual status had been withdrawn. The original proposal had been released for comment on March 18, 1991.</p>	

FDIC	FRB	OCC	OTS
<p>Regional Credit Crunch Meetings, #91-131 (08-29-91)</p> <p>Provided guidance for responding to requests for FDIC participation in credit crunch meetings that are sponsored by Members of Congress.</p> <p style="text-align: center;">* * * *</p> <p>Regional Credit Crunch Meetings, #91-173 (12-05-91)</p> <p>Revised existing instructions on expected regional office attendance at regional credit crunch meetings. (Changed the guidance provided in #91-131 dated 08-29-91.) Regional directors now have discretion as to the appropriate representation at such meetings; however, in making selections, they should consider the general level of comparability with the representatives of the other banking agencies attending as well as the visibility of the meeting.</p>	<p>Communications Efforts Regarding Credit Availability Concerns, SR Letter 91-19 (FIS) (10-02-91)</p> <p>Transmitted information to each Federal Reserve Bank indicating that Members of Congress in their districts may sponsor "town meetings" to address credit availability concerns. The letter encouraged the Reserve Banks to participate in these meetings and to provide FRB staff with short summaries of discussions at meetings attended.</p> <p style="text-align: center;">* * * *</p> <p>Meetings With Senior Bank Executives on Credit Availability Issues, AD Letter 91-72 (FIS) (10-07-91)</p> <p>Meetings were held to strengthen understanding of issues affecting credit availability and the conditions banks were facing, determine questions bankers had regarding FRB's policies, and solicit the banks' views on further steps to be taken to address credit availability concerns.</p>		

FDIC	FRB	OCC	OTS
<p>Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans, PR-168-91, FIL-54-91 (11-07-91)^b</p> <p>Policy provided clear and comprehensive guidance to enable supervisory personnel to review loans in a consistent, prudent, and balanced manner and to make all interested parties aware of the guidance. Guidelines (which expanded on the March 1 statement) cover loan portfolio review procedures, indicators of troubled loans, analysis of loans and collateral values, and the review of institutions' loss allowances.</p>	<p>Interagency Examination Guidance on Commercial Real Estate Loans, SR Letter 91-24 & 25 (11-07-91)^b</p>	<p>Interagency Policy Statement on Commercial Real Estate, BB 91-43 (11-05-91)^b</p> <p>Statement dated 11-07-91 was transmitted by OCC on 11-05-91.</p> <p style="text-align: center;">* * * *</p> <p>Guidelines for Troubled Real Estate Loans, BC 208 (Revised) (03-20-92)</p> <p>Transmitted a revised EC 234 to conform with the interagency policy statement on commercial real estate loans and provided additional clarification on the ongoing appraisal and evaluation requirements of a troubled real estate loan.</p>	<p>Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans (11-07-91)^b</p>

FDIC	FRB	OCC	OTS
<p>Audit and Review Program for Real Estate Appraisal Evaluations, #91-167 (11-19-91)</p> <p>Guidance (1) established a program for audits of appraisal evaluations and any adjustments made to them in connection with the assessment of a financial institution's asset quality and (2) instructed examiners to prepare separate memos detailing situations encountered in banks where a significant number of appraisals are deficient in quality or are unreasonably conservative or liberal.</p>	<p>Examination Review Procedures--Program for Evaluating and Reviewing Use of Appraisals, SR Letter 91-26 (FIS) (11-08-91)</p> <p>Requested that each Reserve Bank set up a procedure to review examiners' use of appraisal information when classifying real estate loans. The review process was designed to promote the use of consistent and reasonable assumptions when assessing real estate values.</p>	<p>Peer Review Program, PPM 5000-29 (05-17-91)</p> <p>Established OCC's peer review program for bank supervision. Described the peer review process and defined areas of responsibility for the Office of the Chief National Bank Examiner, district management, the peer review teams, and team leaders.</p>	<p>Random Audit Program (11-25-91)</p> <p>Ensured that examiners are using valuation techniques that are consistent with the interagency policy statements. OTS implemented a random audit program to determine how examiners are using appraisals (and any management adjustments to the appraisals) in the loan evaluation process. This audit would supplement the current regional office review of Reports of Examination for reasonableness of conclusions and recommendations and for consistency with supervisory policy.</p>

FDIC	FRB	OCC	OTS
	<p>Interagency Meeting of Federal Financial Regulatory Examination Staff, December 15-17, 1991, AD Letter 91-78 (FIS) (11-08-91)</p> <p>Announced the Interagency Examiners Conference to be held December 16-17, 1991, in Baltimore to discuss regulatory policies and procedures and their effects on the availability of credit. Also discussed a meeting of Federal Reserve senior officers in charge of supervision to be held on December 18, 1991.</p> <p style="text-align: center;">* * * *</p> <p>National Examiners' Conference, AD Letter 91-85 (FIS) (12-05-91)</p> <p>Provided information on the National Examiners' Conference, which was held to review and discuss the November 7, 1991, "Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans." Also communicated other initiatives and policies related to credit availability with senior examiners of the four bank regulatory agencies.</p>		<p>Federal Financial Institution Regulators' Examination Staff Conference (memo to all conference participants) (11-22-91)</p> <p>Purpose of conference was to review and discuss the recently issued interagency policy statement on the review and classification of commercial real estate loans and to communicate other initiatives and policies related to credit availability.</p>

FDIC	FRB	OCC	OTS
<p>Improved Communication of Supervisory Policies, #91-184 (12-23-91)</p> <p>Established examination and regional office procedures to ensure that policy statements regarding the supervisory impact on sound credit availability (03-01-91, 11-07-91, and 06-17-91) are adequately communicated to examiners and bankers.</p> <p style="text-align: center;">* * * *</p> <p>Regular Communication With Bankers on Examination Standards and Practices, #91-169 (11-22-91)</p> <p>Updated the Division of Supervision's documentation procedures for communicating with bankers and reiterated currently outstanding instructions in this area.</p>	<p>Communication and Examination Procedures Concerning Credit Availability, SR Letter 91-29 (FIS) (12-12-91)</p> <p>Addressed the communication of credit availability policies and set forth certain examination procedures to document compliance with these policies. The SR letter reemphasized the importance of (1) continuing to obtain the views of bankers regarding credit availability and (2) ensuring that examiners and bank management understand the credit availability policy statements and related guidance.</p>	<p>Communication of Policy Clarifications, EB 92-1 (01-15-92)</p> <p>Established procedures to ensure that interagency policy statements and OCC banking issuances related to the supervisory impact on sound credit availability were effectively communicated to bankers. Also, in part, these guidelines were intended to promote consistency among regulatory agencies and to avoid misunderstandings about policies that might hinder the availability of credit to sound borrowers.</p>	<p>Implementation of the Report of Examination Confirmation Statements (01-22-92)</p> <p>Memo reiterated guidance for ensuring that the 03-01-91 and 11-07-91 interagency policy statement requirements have been met by following required examination procedures, communicating policy statements to financial institutions, and confirming (by a signed statement) that exam report information is consistent with the interagency policies.</p>

FDIC	FRB	OCC	OTS
<p>Bimonthly Status Reports on Communication of Various Supervisory Policies to Bankers, #92-049 (03-23-92)</p> <p>Reiterated to regional personnel the importance of communicating supervisory policies to bankers and of keeping adequate records on those communications. (See memos #91-169 dated 11-22-91 and #91-184 dated 12-23-91.) Also, this guidance established a bimonthly reporting system to the Washington Office summarizing actions taken in these areas.</p>	<p>Request for Information on Communication Efforts Regarding Credit Availability Concerns and Related Matters, AD Letter 92-17 (FIS) (03-03-92)</p> <p>Requested a variety of types of information from the Reserve Banks regarding their efforts to communicate credit availability policies to bankers and examiners.</p>	<p>Examination Review Process, EB 91-7 (06-20-91)</p> <p>Bulletin provided guidance that examiners should review PPM 5000-28 at their next meeting with the bank's board of directors in order to promote better understanding of this policy.</p> <p style="text-align: center;">* * * *</p> <p>Examination Review Process, BB 91-25 (06-20-91)</p> <p>Bulletin issued to national banks reminding and encouraging them to use the established procedures (in PPM 5000-28) that banks may follow to request a review of examiners' conclusions. Guidance also permits banks to request a review if they question the application of an OCC policy in the examination of their institution.</p>	<p>Implementation of New Guidance on Commercial Real Estate Loans (11-07-91)</p> <p>Reviewed the major points of the March 1 joint policy statement and transmitted a copy of the July 11, 1991, issuance addressing the refinancing of commercial real estate loans. The memo also summarized the major points of the November 7 interagency policy statement and requested that regional supervisory staff review all three documents. The memo suggested that these statements be discussed with institutions' boards of directors during discussions of examination findings, that reviewing officials should keep these policies in mind when reviewing examinations, and that statements should be included in examination reports, verifying that these steps were taken.</p>

FDIC	FRB	OCC	OTS
<p>Interagency Modification of the Supervisory Definition of Highly Leveraged Transactions, FIL-14-92 (02-18-92)</p> <p>In July 1991, the three bank regulatory agencies issued a request for public comment on whether and how to revise the supervisory definition of HLTs. In response to comments received, the three agencies made plans to phase out the HLT definition and discontinue reporting of HLTs by banking organizations after June 30, 1992. (See table II.1, "Miscellaneous," 02-11-92.)</p>	<p>Supervisory Definition of Highly Leveraged Transactions (02-06-92)</p> <p>Discontinued the use of the supervisory definition of HLTs after June 30, 1992. Also transmitted revisions to the definition to be used until June 30 1992.</p>	<p>Final Rule on the Definition of Highly Leveraged Transactions, BB 92-1 (01-21-92)</p> <p>Announced that the definition of HLTs was being phased out by the three federal bank regulatory agencies. It was to be discontinued after the June 30, 1992, regulatory reporting period. In the meantime, all prior delisting criteria were replaced with interim delisting criteria, which were effective for the two remaining reporting periods. Also transmitted a copy of the interagency statement to discontinue the definition.</p>	

FDIC	FRB	OCC	OTS
<p>Procedures for Requesting Review of Supervisory Decisions, FIL-11-92 (02-07-92)</p> <p>Policy established a third process for institutions desiring a review of supervisory decisions to request a review by written submission to the Division of Supervision Director in Washington. (Note: The other two procedures involved a request to the on-site examiner or the regional office Division of Supervision.)</p>	<p>Federal Reserve's Policy on Resolving Examination Differences, S Letter 2546 (12-13-91)</p> <p>Outlined the circumstances and requirements for appealing examination findings and conclusions to Reserve Bank staff. Specifically, the S Letter provides for the review of material and significant disagreements between bankers and examiners by senior Reserve Bank officials including the Reserve Bank president.</p>	<p>Examination Review Process, BC 257 (02-26-92)</p> <p>Circular transmitted a revised copy of PPM 5000-28 to all banks and examining offices. Guidance establishes procedures that banks may follow to request a review of an examination finding or supervisory action and describes levels of review available to resolve substantive disagreements between national banks and OCC personnel.</p> <p style="text-align: center;">* * * *</p> <p>Examination Review Process, PPM 5000-28 (02-26-92)</p> <p>This issuance revises the original PPM-5000-28 issued 04-30-91. It describes the levels of review available to resolve exam-related disagreements and the procedures for requesting a review.</p>	<p>Supervisory Review Process (04-06-92)</p> <p>Memo described a supplemental process whereby bank and thrift institutions can, on a confidential basis, request a review of actions that occur during an examination. The process is to help resolve disagreements that arise during the exam process and ensure open lines of communication between thrifts and OTS.</p>

FDIC	FRB	OCC	OTS
Capital: Risk-Based			
<p>Proposal to Revise the Capital Treatment of Intangible Assets, FIL-28-92 (04-09-92)</p> <p>Provided copy of proposed rule which revised the treatment of intangible assets under FDIC's capital maintenance regulation. As proposed, limited amounts of purchased mortgage servicing rights and PCCRs relationships would be recognized for purposes of calculating Tier 1 capital under FDIC's leverage capital and risk-based capital standards.</p>	<p>Regulatory Capital Treatment of Identifiable Intangible Assets (02-19-92)</p> <p>Requested comments on a proposal regarding revision of the risk-based capital standards allowing the inclusion of certain intangibles in the risk-based capital calculation. Under the proposal, purchased mortgage servicing rights and PCCRs would be included in the Tier 1 capital computation provided that, in the aggregate, they do not exceed a limit of 50 percent of Tier 1 capital and provided that PCCRs do not exceed a sublimit of 25 percent of Tier 1 capital.</p> <p style="text-align: center;">* * * *</p> <p>Risk-Based Capital (01-14-92)</p> <p>Approved proposal to lift the limit on the amount of noncumulative perpetual preferred stock that BHCs may include in Tier 1 capital for the purpose of calculating their risk-based and leverage capital ratios. Cumulative perpetual preferred stock will continue to be included in Tier 1 capital for BHCs, up to a limit of 25 percent of Tier 1 capital.</p>	<p>Notice of Proposed Rulemaking on Intangible Assets, BB 92-18 (04-13-92)</p> <p>Notice of proposed rule to amend OCC's minimum capital ratio (leverage ratio) and risk-based capital guidelines with respect to the treatment of intangible assets held by national banks.</p> <p style="text-align: center;">* * * *</p> <p>Risk-Based Capital Model for Bankers, BB 91-37 (09-17-91)</p> <p>Announced that the Supervisory Research Division of OCC had developed a model that estimates the risk-based capital ratio using Call Report information. The model is being made available to national banks and other interested parties in an effort to increase risk-based capital planning. An order form was enclosed.</p>	<p>Regulatory Capital: Intangible Assets (04-13-92)</p> <p>Notification of proposed rule which would amend the risk-based capital regulation to set forth the types of intangible assets that savings associations may include in calculating capital for purposes of compliance with their tangible capital, leverage ratio, and risk-based capital requirements. The proposal also set forth certain limitations and other requirements that would apply to qualifying intangible assets under the proposed rule.</p>

FDIC	FRB	OCC	OTS
	<p>Asset Quality Ratings for CAMEL Purposes Under the Tier 1 Capital Definition, SR Letter 91-7 (FIS) (03-01-91)</p> <p>Provided guidelines on the calculations for the revised asset quality ratio and included the substitution of risk-based capital components as a replacement for primary and total capital.</p> <p style="text-align: center;">* * * *</p> <p>Field Testing of Revised Pages of the Examination and Inspection Reports Incorporating the New Risk-Based Capital Measures, AD Letter 91-25 (FIS) (04-24-91)</p> <p>Transmitted revised examination report pages that implement changes as a result of the adoption of new risk-based capital guidelines.</p> <p style="text-align: center;">* * * *</p> <p>Risk-Based Capital (10-31-91)</p> <p>Requested comment on the inclusion in Tier 1 risk-based capital of perpetual preferred stock meeting certain terms and conditions.</p>		

FDIC	FRB	OCC	OTS
<p>Proposal to Implement Preferential Capital Treatment for Certain Multifamily Housing Loans and Collateralized Securities, FIL-29-92 (04-10-92)</p> <p>Provided copy of proposed rule, which was to amend risk-based capital guidelines to provide for the assignment of loans secured by multifamily residential properties ("multifamily housing loans") that meet certain prudential criteria to the 50-percent risk weight category. Prior to the proposal, such loans were assigned to the 100-percent risk weight category.</p>	<p>Risk-Based Capital (04-10-92)</p> <p>Requested comments on proposed revision regarding the risk weighing of certain multifamily mortgages and certain collateralized obligations.</p> <p style="text-align: center;">* * * *</p> <p>Analysis of Risk-Based Capital for the 50 Largest Bank Holding Companies (BHCs), AD Letter 91-49 (FIS) (07-26-91)</p> <p>Transmitted a set of statements to Reserve Banks showing the components of the risk-based capital statistics for each BHC in their district that ranks among the nation's 50 largest.</p>	<p>Notice of Proposed Rulemaking on the Risk-Based Capital Treatment of Residential Construction Loans Secured by Presold Homes, BB 92-19 (04-09-92)</p> <p>Transmitted proposed rule which amended the risk-based capital guidelines to include in the 50-percent risk weight category certain loans to builders to finance the construction of presold one-to-four-family residential properties. The effect of the proposal will be to move these loans from the 100-percent risk weight category to the 50-percent risk weight category.</p>	<p>Residential Bridge Loans (04-13-92)</p> <p>Reduced the risk-weighted capital requirement for conservatively underwritten construction loans on presold homes. Adopted a rule that banking agencies had proposed. (Final was issued 04-02-92.)</p>
<p>Capital: Leverage</p>			

FDIC	FRB	OCC	OTS
<p>Revisions to Leverage Capital Standard, FIL-12-91 (03-18-91)</p> <p>Provided copy of final rule, which was intended to make the definition of capital under the leverage requirements more consistent with risk-based capital guidelines that became effective at the end of 1990. The revised rule combined a more narrow definition of capital with a lower minimum acceptable ratio of capital to assets; it was consistent with measures adopted by other federal regulatory agencies.</p> <p style="text-align: center;">* * * *</p> <p>Capital Provisions in Enforcement Actions, #91-093 (06-18-91)</p> <p>Discussed changes in "leverage" capital requirements and provided revised language for capital provisions in enforcement actions.</p>			<p>Leverage Ratio Requirement (04-22-91)</p> <p>Notification of final rule which would subject thrifts to same leverage ratio requirements as banks (required by statute) and would clarify numerous capital-related issues, including the important question of when a thrift is "in compliance" with capital requirements.</p>

FDIC	FRB	OCC	OTS
Capital: Definition/Components			
<p>Revisions to Core Page 3-- Analysis of Capital, #91-107 (07-12-91)</p> <p>Provided clarification and additional guidance on several items that should be included as part of the instructions for the Core Page 3 of the bank examination manual--Analysis of Capital. (For policy guidance on subjects closely related to the analysis of capital, refer to #91-072, Revisions to the Report of Examination, May 8, 1991; #91-071, ALLL, May 7, 1991; and #91-082, ALLL, June 4, 1991.)</p>		<p>Classified Asset Ratios, EB 91-5 (05-29-91)</p> <p>Informed all examining personnel of a change in OCC policy regarding calculation of classified assets as a percentage of capital.</p>	<p>Miscellaneous Capital and Capital-Related Amendments (04-16-91)</p> <p>Notification of proposed rule which would (1) amend OTS regulations by clarifying and removing obsolete or incorrect references to OTS' interim final rule setting minimum regulatory capital requirements for savings associations, (2) correct citation errors and add language clarifying the regulations contained in its risk-based capital regulation and the capital distribution regulation, and (3) clarify the treatment of sales with recourse and maturing capital instruments for purposes of the capital regulations and the status of savings associations in compliance with an approved capital plan. Final rule issued 07-29-92.</p>

FDIC	FRB	OCC	OTS
			<p>Capital Requirements on Recourse Arrangements (Interim), RB 26 (04-26-91)</p> <p>Interim guidance for the determination of capital requirements on recourse arrangements, which, in general, calls for capital to be equal to the value of the underlying assets.</p> <p style="text-align: center;">* * * *</p> <p>Capital Adequacy, TB 38-3a (11-19-91)</p> <p>Transmitted policies regarding minimum capital standards that will be applied to significant voluntary unassisted transactions, including acquisitions of control, mergers, mutual-to-stock conversions, and branch purchases.</p>

FDIC	FRB	OCC	OTS
			<p>Policy Clarifications Related to the Capital Rule (01-23-92)</p> <p>To ensure that OTS policies and actions do not inadvertently or unnecessarily curtail credit availability, memo set forth adopted guidance on two specific issues--valuation allowance on assets subject to the "deduction from capital" requirement and treatment of thrift premises.</p> <p style="text-align: center;">* * * *</p> <p>Policy Clarifications on Capital Rule: Follow-Up to January 23, 1992, Memorandum (04-09-92)</p> <p>Answered questions that arose on how to implement policies first discussed in a 01-23-92 OTS memo that clarified several policies relating to deductions from capital and the definition of "premises."</p>

FDIC	FRB	OCC	OTS
			<p>Computation of Capital Deduction for Assets With General Valuation Allowances, TB 38-4 (04-13-92)</p> <p>Guidance provided that OTS, in computing regulatory capital, will offset general valuation allowances against the deduction requirement applicable to investments in and loans to certain subsidiaries and equity investments.</p> <p style="text-align: center;">* * * *</p> <p>Supervisory Conversions (01-17-92)</p> <p>Notification of proposed rule which would make it easier for mutual thrifts that fail their capital requirements to recapitalize by converting to stock form. Final rule issued 11-02-92.</p>

FDIC	FRB	OCC	OTS
Capital: Differential regulation/Policy			
			<p>Capital Adequacy, TB-50 (11-19-91)</p> <p>Provided that thrifts with a 4 or 5 MACRO rating cannot enter into third-party contracts outside the normal course of business unless approved by the regional director.</p>
Capital: Plan			
			<p>Capital Adequacy, TB 38-2a (05-24-91)</p> <p>Informed thrifts operating under capital or accounting forbearances that such forbearances should be eliminated in determining whether the thrifts comply with the new capital regulation.</p>

FDIC	FRB	OCC	OTS
			<p>Capital Plans (06-21-91)</p> <p>Announced that, effective immediately, the Washington concurrent review process for the approval of capital plans for larger institutions was discontinued. Regional directors could act on all capital plan submissions, including those that were in the process of a concurrent review. In order to assist Washington staff in monitoring capital actions for nationwide consistency, regional directors were asked to submit copies of analyses and letters approving or denying capital plans, including first-time submissions, amendments, and resubmissions; letters terminating existing capital plans; and any regional management reports on capital plans. This request covered actions taken after the date of the request.</p>

FDIC	FRB	OCC	OTS
Capital: Administrative			
<p>Revisions to the Report of Examination, #91-072 (05-08-91)</p> <p>Provided revised pages and instructions to the report of examination relating to recent changes in Part 325 of the FDIC Rules and Regulations, which changed the leverage capital standard and adopted risk-based capital guidelines.</p> <p style="text-align: center;">* * * *</p> <p>Basle Committee on Banking Supervision Paper on Measuring and Controlling Large Credit Exposures, #91-077 (05-21-91)</p> <p>Provided a copy of the subject paper for informational purposes to each FDIC field office and to each state within an FDIC region.</p>			

FDIC	FRB	OCC	OTS
Capital: Miscellaneous			
<p>Disallowing the Use of Bankruptcy to Evade Commitment to Maintain the Capital of a Federally Insured Depository Institution, #91-047 (04-03-91)</p> <p>Provided information and guidance on the stated subject, which covered the new authority included in the Crime Control Act of 1990. Section 2522(c) of the Crime Control Act of 1990 amended the Bankruptcy Code to require that, in Chapter 11 bankruptcy cases (i.e., those in which a debtor company seeks to reorganize its debt), the trustee shall seek to immediately cure any deficit under any commitment by a debtor to maintain the capital of an insured depository institution.</p>		<p>Final Rule, National Bank Lending Limit Loan Commitments, BB 91-29 (08-08-91)</p> <p>Transmitted final rule which provided that any loan commitment, which together with other loans to the same borrower was within the bank's lending limit at the time the commitment was made, qualifies as an actual loan for lending limit purposes. Such commitments may be funded even if the bank's lending limit later declines.</p>	

FDIC	FRB	OCC	OTS
Assets: Real estate			
<p>Monitoring of Banks With Exceptional Growth and/or High Concentration Levels in the Commercial Real Estate Portfolio, #91-066 (05-03-91)</p> <p>Requested comments and recommendations regarding a prototype monitoring tool, developed by the Analysis and Monitoring Section, for identifying banks exhibiting significant concentrations and growth in commercial real estate lending.</p> <p style="text-align: center;">* * * *</p> <p>Monitoring of High Growth and/or High Concentration Levels of Commercial Real Estate Loans, #91-157-B (11-01-91)</p> <p>Guidance transmitted lists of banks that reflected high commercial real estate loan growth and/or that had potentially excessive concentration levels of commercial real estate loans based on Call Report data through June 30, 1991, and provided advice on the development status of a new on-line procedure that was to generate such reports by using FDIC's mainframe computer.</p>	<p>Loss Experience on Residential Construction Projects, AD Letter 92-9 (FIS) (01-31-92)</p> <p>Requested information from each Reserve Bank regarding the riskiness of various types of residential construction projects.</p>	<p>Real Estate Limited Partnerships, AL-92-3 (02-20-92)</p> <p>Provided advice to national banks that are considering investing in real estate limited partnerships as part of their community development program that they should be aware that such limited partnerships may not meet the standards for permissible community development investments under certain cited rules and regulations.</p>	

FDIC	FRB	OCC	OTS
Assets: ALLL			
<p>Allowance for Loan and Lease Losses, #91-082 (06-04-91)</p> <p>Guidance provided a worksheet (1) for examiners to use in reviewing the adequacy of an institutions' ALLL and (2) to serve as documentation supporting the level for the institution's ALLL recommended by the examiner. Also, the worksheet provided documentation for future examination planning and may be useful in preparing for enforcement proceedings.</p> <p style="text-align: center;">* * * *</p> <p>Allowance for Loan and Lease Losses, #91-093B (06-18-91)</p> <p>Provided a revised page 5 for Transmittal No. #91-071 dated May 7, 1991--Allowance for Loan and Lease Losses (and shown in this table as Guidance on Adequacy of Allowance for Loan and Lease Losses, FIL-34-91 dated June 28, 1991). The revision clarifies guidance that, when determining allocations for ALLL, a loan should be reviewed either individually or as part of a pool, but not both.</p>	<p>Changes in Allocated Transfer Risk Reserve Determination on Banking Institutions' Assets, SR Letter 91-12 (FIS)^c (04-15-91)</p> <p>Transmitted an interagency statement by FRB, OCC, and FDIC regarding changes in allocated transfer risk reserves and loss requirements mandated in accordance with provisions of the International Lending Supervision Act of 1983 and Section 211.43 of Regulation K. Also provided guidance on the distribution of the statement to state member banks and banking Edge Act corporations.</p>	<p>Allowance for Loan and Lease Losses, BC-201 (Rev.) (02-20-92)</p> <p>Required banks to maintain an ALLL that is adequate to absorb all estimated inherent losses in their loan and lease portfolios. Banks must (1) maintain an effective loan review system and controls that identify, monitor, and address asset quality problems in an accurate and timely manner and (2) adequately document their process for determining the level of allowance. (Note: OCC held a nationwide conference call with examiner duty stations to discuss guidance before sending it to the banks.)</p>	

FDIC	FRB	OCC	OTS
<p>Guidance on Adequacy of Allowance for Loan and Lease Losses, FIL-34-91 (06-28-91)</p> <p>Provided guidance to examiners regarding the examination of the adequacy of ALLL and a discussion paper on the applicable accounting literature (addressing the adequacy of the ALLL for banks and thrifts).</p>	<p>Change in Allocated Transfer Risk Reserve Determinations on Banking Institutions' Assets, SR Letter 91-15 (FIS)^c (07-12-91)</p> <p>Transmittal letter for an interagency statement by FRB, OCC, and FDIC regarding changes in allocated transfer risk reserves and loss requirements mandated in accordance with provisions of the International Lending Supervision Act of 1983 and Section 211.43 of Regulation K. Guidance was also provided on the distribution of the statement to state member banks and banking Edge Act corporations.</p>		
	<p>Changes in Allocated Transfer Risk Reserve Determination on Banking Institutions' Assets, SR Letter 91-30 (FIS)^c (12-13-91)</p> <p>Transmitted an interagency statement regarding changes in allocated transfer risk reserves and loss requirements under the International Lending and Supervision Act of 1983 and Regulation K. This information is used to assess the exposure of financial institutions in foreign countries and is considered confidential.</p>		

FDIC	FRB	OCC	OTS
Assets: Appraisals			
<p>Real Estate Appraiser Regulations, #91-104 (07-08-91)</p> <p>Distributed questions and answers about Title XI of FIRREA, which was prepared by the Appraisal Subcommittee of the FFIEC. The commentary information is intended to help state appraiser regulatory agencies and others in understanding some of the positions and interpretations of the Subcommittee.</p> <p style="text-align: center;">* * * *</p> <p>Appraisal Regulation, #91-158 (11-01-91)</p> <p>Transmitted a manual that gives the regional office a central reference for material relating to appraisal law and regulations that originated from Title XI of FIRREA.</p>	<p>Information on the Real Estate Appraisal Regulation, AD Letter 91-55 (FIS) (08-15-91)</p> <p>Transmitted questions and answers prepared by the Appraisal Committee of FFIEC regarding the requirements of Title XI of FIRREA.</p>		

FDIC	FRB	OCC	OTS
<p>Proposed Amendments to Appraisal Regulations, FIL-48-91 (09-20-91)</p> <p>Provided copy of proposed amendments. If adopted, the amendments would decrease the number of transactions requiring an appraisal prepared by a certified or licensed appraiser, thereby reducing the costs of these transactions. The proposed amendments would (1) raise the threshold to \$100,000 from \$50,000 for transactions covered by the regulation, (2) permit the use of appraisals made for loans insured or guaranteed by an agency of the federal government, and (3) clarify that the appraisal requirements do not apply to mineral rights, timber rights, or growing crops.</p>	<p>Extension of the Deadline for Licensed and Certified Real Estate Appraisers to 12-01-91, SR Letter 91-32 (FIS) (05-17-91)</p> <p>Announced the extension, by the Appraisal Subcommittee of FFIEC, of the effective date for requiring state-certified and -licensed appraisers to be used for appraisals done in connection with federally related transactions. Attached was a copy of the FFIEC Appraisal Subcommittee press release. The extension was necessary because the states' certification and licensing programs were in varying degrees of implementation.</p>	<p>Discrimination Against Real Estate Appraisers Based on Membership or Lack of Membership in Professional Organizations, AL-91-5 (11-13-91)</p> <p>Transmitted a copy of the May 20, 1991, FFIEC Appraisal Subcommittee letter, which reminded institutions that selection or employment of real estate appraisers based solely upon membership in appraisal organizations or professional designations is discriminatory. Guidance was sent as a result of an indication that the original distribution was inadequate.</p>	

FDIC	FRB	OCC	OTS
<p>Final Real Estate Appraisal Rules, PR-37-92 (03-10-92)</p> <p>Announced approved amendments to real estate appraisal regulations that will reduce the number of real estate transactions requiring an appraisal by a certified or licensed appraiser, thereby reducing the costs of the loans to FDIC-supervised banks and to borrowers. (See FIL-48-91 dated Sept. 20, 1991.)</p>		<p>Real Estate Appraisal-- Final Rule, BB-92-20 (04-23-92)</p> <p>Communicated OCC's final amendments to the appraisal regulations. Amendments include raising the <u>de minimis</u> amount from \$50,000 to \$100,000, allowing the use of appraisals prepared for U.S. government insurers or guarantors, and adding definitions of "real estate" and "real property."</p>	<p>Appraisals (04-13-92)</p> <p>Notification of final amendments to the appraisal regulations (from FIRREA) (1) eliminated the requirement for certified or licensed appraisals on real estate transactions having a value of \$100,000 or less and (2) defined "real estate" and "real property" so as not to apply to mineral rights, timber rights, or growing crops.</p>

FDIC	FRB	OCC	OTS
<p>Extension of Deadline For Use of Certified or Licensed Real Estate Appraisers, FIL-4-92 (01-13-92)</p> <p>Provided copy of FFIEC Appraisal Subcommittee advisory related to FIRREA appraisal requirements. FDICIA postponed (from Dec. 31, 1991, to Dec. 31, 1992) the date when federally regulated depository institutions must use state-certified or -licensed appraisers in connection with certain real estate transactions. (Extension provided to help facilitate an orderly, nationwide implementation of FIRREA by giving the states additional time to implement their appraiser qualification standards.)</p>	<p>Delay in the Federal Effective Date for the Mandatory Use of Licensed and Certified Real Estate Appraisers in Federally Related Transactions, AD Letter 91-32 (FIS) (12-30-91)</p> <p>Transmitted the extension of the effective date for the use of licensed and certified appraisers as required by FDICIA. The date for compliance with the federal regulation was extended until December 31, 1992.</p> <p style="text-align: center;">* * * *</p> <p>State Requirements for Certified and Licensed Appraisers, SR Letter 92-7 (FIS) (03-09-92)</p> <p>Provided a state-by-state listing of the requirements for the use of licensed or certified appraisers. The letter provided guidance on whether the federal requirements or the individual state requirements should be followed when examining state member banks.</p>	<p>New Implementation Date for Licensed or Certified Appraisers, AL-92-1 (01-23-92)</p> <p>Alerted national banks that FDICIA postponed the December 31, 1991, implementation date regarding the use of licensed and certified appraisers to no later than December 31, 1992; however, states may elect to implement their programs sooner.</p>	

FDIC	FRB	OCC	OTS
Assets: Debt securities/Securities activities			
<p>New Financial Statement Disclosures About Debt Securities Held as Assets, #91-041 (03-08-91)</p> <p>Distributed copies of the American Institute of Certified Public Accountants' Statement of Position 90-11--"Disclosure of Certain Information by Financial Institutions About Debt Securities Held as Assets."</p>	<p>Underwriting Up to \$15 Million of Equity Securities in a Single Subsidiary Under Regulation K, SR Letter 92-3 (FIS) (02-10-92)</p> <p>Discussed the clarification of FRB's 1991 revisions to Regulation K, including the higher investment limits under Section 211.5(d)(14). In order to take advantage of these limits investors must receive prior approval from FRB.</p>		<p>Supervisory Statement of Policy on Securities Activities, TB-52 (01-10-92)</p> <p>Adopted FFIEC statement on securities activities. The new guidance addressed the selection of securities dealers, required depository institutions to establish prudent policies and strategies for securities transactions, described securities trading and sales practices that are unsuitable when conducted in an investment portfolio, indicated characteristics of loans held for sale or trading, and established a framework for identifying when certain mortgage derivative products are high-risk mortgage securities that must be reported in a "trading" or "held for sale" account.</p>

FDIC	FRB	OCC	OTS
Assets: Administrative			
	<p>New Summary Examination Report Form to Be Used for Examination of Government Securities Activities, AD Letter 91-26 (SA) (04-29-91)</p> <p>Requested that a separate report summarizing findings of examination of government securities broker/dealers and custody activities of all state member banks (located within their districts) be completed and forwarded to FRB each time the government securities activities of state member banks covered by Treasury regulations are examined. Examination results of government securities activities should also continue to be included in the Commercial or Trust Examination Report furnished to the bank. Enclosed copy of the new report form.</p>		

FDIC	FRB	OCC	OTS
	<p>Environmental Liability, SR Letter 91-20 (FIS) (10-11-91)</p> <p>Guidance on the examination of banking organizations' loan portfolio with respect to environmental liability. Outlined elements of loan policies to mitigate liability. Transmitted discussion paper on environmental liability and its impact on banking organizations.</p> <p style="text-align: center;">* * * *</p> <p>Review of Government Securities Activities, SR Letter 91-22 (SA)^c (10-25-91)</p> <p>Guidance for evaluation and on-site inspection of bank holding companies, banks, and branches engaged in government securities dealing. Transmitted listings of affected entities and contacts at those companies.</p>		

FDIC	FRB	OCC	OTS
	<p>Shared National Credit Program for 1991, AD Letter 91-19 (FIS) (03-28-91)</p> <p>Announced that the Shared National Credit Program's on-site examination phase is about to commence. The AD Letter enclosed necessary reporting forms and a suggested draft transmittal letter for use in forwarding the reporting forms to all BHCs, state member banks, and state-licensed branches and agencies of foreign banks that reported shared national credit information in response to the Federal Reserve's first-day letter for the 1991 program.</p> <p style="text-align: center;">* * * *</p> <p>Shared National Credit Program, AD Letter 91-56 (FIS) (08-15-91)</p> <p>Transmitted to Reserve Banks the 1991 list of shared national credits and their disposition, together with write-ups for criticized shared national credits held by financial institutions in the recipient's district.</p>		

FDIC	FRB	OCC	OTS
	<p>Shared National Credit Programs for 1992, AD Letter 91-28 (FIS) (12-10-91)</p> <p>Letter announced the commencement of the 1992 Shared National Credit Program. Transmitted guidance on mailing of forms and letters to state member banks and state-licensed U.S. branches and agencies of foreign banks participating in the program.</p> <p style="text-align: center;">* * * *</p> <p>Shared National Credit Program for 1992, AD Letter 92-3 (FIS) (01-09-92)</p> <p>Explained the Shared National Credit Program for 1992 and discussed staffing needs from the Reserve Banks for the program.</p>		
	<p>Shared National Credit Program--Screening of Credits, SR Letter 92-5 (FIS) (03-02-92)</p> <p>Implemented a credit screening program for use during the 1992 Shared National Credit Review. The screening program was developed to reduce the amount of examination resources expended during the review without sacrificing the integrity of the review.</p>		

FDIC	FRB	OCC	OTS
Problem assets			
	<p>Treatment of Value Impaired Classifications for Asset Quality Purposes, SR Letter 92-2 (FIS) (02-10-92)</p> <p>Revised the treatment of assets impaired by protracted transfer risk problems. The letter updated examination procedures to be consistent with current practices.</p>		
Assets: Miscellaneous			
<p>Amortization of Discounts on Certain Acquired Loans and Debt Securities, #91-057 (04-17-91)</p> <p>Provided guidance to examiners concerning the amortization of discounts on certain acquired loans and debt securities. This guidance reflects the views of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants as expressed in its August 1989 Practice Bulletin No. 6, "Amortization of Discounts on Certain Acquired Loans."</p>	<p>Asset Quality Ratings for CAMEL Purposes Under the Tier 1 Capital Definition, SR Letter 91-7 (FIS) (03-01-91)</p> <p>Provided guidelines on the calculations for the revised asset quality ratio and included the substitution of risk-based capital components as a replacement for primary and total capital.</p>		<p>Qualified Thrift Lender Test (04-26-91)</p> <p>Notification of proposed rule which would revise OTS' qualified thrift lender regulations to implement amendments made by Title III of FIRREA. The proposed rule imposed a more restrictive definition of "qualified thrift investments" and required savings associations to maintain a higher percentage of these investments.</p>

FDIC	FRB	OCC	OTS
<p>Municipal Bonds Supported by Guaranteed Investment Contracts (GICs) Issued by Executive Life Insurance Co., #91-076 (05-17-91)</p> <p>Updated the Jan. 24, 1991, memo to regional directors concerning the subject securities. (Refers to #91-010, which states that examiners should request financial institutions holding municipal bonds that are fully, or materially, supported by guaranteed investment contracts issued by the Executive Life Insurance Company to charge off or provide for an allowance for losses of 50 percent of the doubtful classifications. These bonds were also to be put in nonaccrual status.)</p> <p style="text-align: center;">* * * *</p> <p>FDIC Clarifies Liquidation and Supervision Policies, PR-21-92 (02-13-92)</p> <p>Clarified liquidation and supervision policies used by FDIC for handling performing loans that become receivership assets as a result of the failure of an insured bank.</p>			

FDIC	FRB	OCC	OTS
Assets: Lease			
			<p>Exclusive Leases (04-13-92)</p> <p>Proposal to remove 20-year-old rule limiting leasing arrangements with shopping centers. No similar rule for banking agencies.</p>
Earnings: Accounting issues			
		<p>Accounting for Income Taxes, BB-92-16 (03-27-92)</p> <p>Provided guidance to banks that they should not adopt the provisions of Financial Accounting Standard 109 for regulatory reporting purposes until the appropriate reporting treatment has been determined.</p>	<p>Tax Issues, TB 49 (08-19-91)</p> <p>Discussed the accounting for income tax benefits associated with bad debts. Also attached SEC's Staff Accounting Bulletin No. 91, which provided interim guidance.</p>

FDIC	FRB	OCC	OTS
			<p>Uniform Accounting Standards (03-29-91)</p> <p>Notification of proposed rule which would revise and consolidate OTS accounting standards. The rule would replace several prescriptive rules that are no longer necessary with GAAP standards and would make thrift standards more consistent with bank standards. Final rule issued 09-02-92.</p>
Earnings: Dividends			
		<p>Dividend Policy, BB-91-41 (10-10-91)</p> <p>Provided additional guidance for examiners concerning dividend payments by national banks. Updated OCC's handbook and transmitted general policy guidance on such payments.</p> <p style="text-align: center;">* * * *</p> <p>Dividend Approval Requests, EC-257 (10-10-91)</p> <p>Provided guidance on processing and evaluating requests for approval of proposed dividend payments.</p>	

FDIC	FRB	OCC	OTS
Earnings: Miscellaneous			
	<p>Quarterly Monitoring of Large BHC Earnings, AD Letter 91-33 (FIS) (05-21-91)</p> <p>Transmitted March 31, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.</p> <p style="text-align: center;">* * * *</p> <p>Quarterly Monitoring of Large BHC Earnings, AD Letter 91-60 (FIS) (09-06-91)</p> <p>Transmitted June 30, 1991, earnings information for all BHCs with consolidated assets over \$1 billion. Indicated that a floppy disk containing a LOTUS file of this information was also sent.</p> <p style="text-align: center;">* * * *</p> <p>Revised Procedures for Submitting the Quarterly BHC Earnings Report, AD Letter 91-73 (FIS) (10-10-91)</p> <p>Prescribed procedures for Reserve Banks to submit to FRB a quarterly earnings report for BHCs in their districts with more than \$1 billion in total assets.</p>		

FDIC	FRB	OCC	OTS
	<p>Quarterly Monitoring of Large BHC Earnings, AD Letter 91-81 (FIS) (11-19-91). See note, AD Letter 91-83 (FIS).</p> <p>Transmitted September 30, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.</p> <p style="text-align: center;">* * * *</p> <p>Quarterly Monitoring of Large BHC Earnings, AD Letter 91-83 (FIS) (11-29-91). Superseded AD 91-81 (FIS).</p> <p>Transmitted revised September 30, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.</p> <p style="text-align: center;">* * * *</p> <p>Quarterly Monitoring of Large Bank Holding Company Earnings, AD Letter 92-18 (FIS) (03-03-92)</p> <p>Transmitted December 31, 1991, earnings information for all BHCs with consolidated assets over \$1 billion.</p>		

^aMany of the policy guidance issuances that appear under credit availability could also be classified under another category. For conciseness, the policy issuances are listed under only one category.

^bOne of the two major comprehensive interagency policy initiatives issued by all four regulatory agencies.

^cConfidential--not for public release.

COMPREHENSIVE INTERAGENCY POLICY STATEMENTS
AIMED AT STIMULATING LENDING BY
DEPOSITORY INSTITUTIONS

OCC • FDIC • FRB • OTS

Joint Agency News Release
 Washington, DC

Friday, March 1, 1991

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.

(MORE)

- 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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OCC • FDIC • FRB • OTS

GENERAL STATEMENT

Recent credit problems have underscored the importance of prudent lending practices to the overall safety and soundness of the nation's financial system. The emergence of credit problems in a number of sectors of the economy has prompted many depository institutions to review their lending practices as well as their capacity to meet credit demands. Many institutions have wisely tightened credit standards where such standards had become too loose. Others have reduced the pace of lending in response to the need to shore up their capital positions and strengthen their balance sheets.

It is possible, however, that some depository institutions may have become overly cautious in their lending practices. In some instances this caution has been attributed to concerns on the part of lenders that the regulators of depository institutions are applying excessively rigorous examination standards.

The Federal banking and thrift regulators do not want the availability of credit to sound borrowers to be adversely affected by supervisory policies or depository institutions' misunderstandings about them. As a result, the agencies today are issuing a series of guidelines and statements that are intended to clarify regulatory policies in a number of areas and reduce concerns depository institutions may have about extensions of credit to sound borrowers. Specifically, the guidelines and statements released today: (1) encourage enhanced disclosure to

2

the public, (2) facilitate extensions of credit to sound borrowers and the workout of problem loans, and (3) better assure sound assessments of the value of real estate by depository institutions and Federal examiners.

Recent concerns related to a tightening of credit have focused the agencies' attention on regulatory policies and their effects on institutions' willingness to extend new credit and to work with troubled borrowers. The guidelines and statements released today, which have been under development for some time, are not intended, nor are they expected, to "solve" all credit availability problems. When combined with other steps that have been taken (such as lower money market interest rates and changes in reserve requirements), these initiatives should help facilitate prudent credit extensions to sound borrowers.

Enhanced disclosure will help to ensure that the public is better informed about the nature of institutions' portfolios. The new guidance recently issued by the Office of the Comptroller of the Currency (OCC) on suggested disclosures of more detailed information about nonaccrual loans in public financial statements, and recent banking agency guidelines on Highly Leveraged Transactions, should help by differentiating among broad groups of assets with varying degrees of risk.

Depository institutions have traditionally worked with their borrowers who are experiencing problems. In the current economic environment, it is especially important for institutions to avoid shutting off credit to sound borrowers, especially in sectors of the economy that are experiencing temporary problems.

Consistent with sound banking practices, depository institutions, including those with low capital positions, should work in an appropriate and constructive fashion with borrowers

who may be experiencing temporary difficulties. Such efforts may include reasonable workout arrangements or prudent steps to restructure extensions of credit. Institutions that have in place effective internal controls to manage and reduce excessive concentrations over a reasonable period of time, need not automatically refuse credit to sound borrowers because of the borrower's particular industry or geographic location.

The documents released today by the Federal bank and thrift regulatory agencies aim to facilitate the workout of problem loans by addressing the income accrual treatment of formally restructured debt and acquired nonaccrual loans consistent with generally accepted accounting principles. Further, there is a clarification of the accounting treatment of multiple loans to a single borrower when some, but not all, of the loans to the borrower are troubled.

The agencies have also clarified when payments may be recognized as income on a cash basis for loans that have been partially charged-off. In addition, the agencies are developing guidelines that address how institutions can accrue income on loans that have been partially charged-off.

Finally, the agencies are also clarifying their policies on the supervisory valuation of real estate. The policies provide that the evaluation of loan loss reserves or net carrying values for real estate loans should reflect a realistic market analysis and not be based solely on liquidation values.

1. Enhanced Disclosure to the Public

A. Disclosure of Nonaccrual Loans Nonaccrual loans vary widely with respect to their quality and cash generating capacity. Consequently, the simple total of such

loans on an institution's books may not be a good indicator of the institution's financial position. One method to address this is to provide more information to the public on these assets. For example, useful supplemental disclosures might include information on the amount of charge-offs taken on nonaccrual loans, the amount of cash payments received on these assets, and the portion of these loans that generate substantial cash flow.

OCC recently issued a Banking Bulletin that contains suggestions for the voluntary disclosure of additional information on nonaccrual loans. The Federal regulatory agencies fully support the voluntary disclosures of the type suggested by the OCC and described in the attached statement.

B. Disclosure of Highly Leveraged Transactions (HLTs)

The Federal banking agencies have previously developed a uniform supervisory definition for HLTs. The purpose of the definition is to provide a consistent means to monitor loans to HLT borrowers. The agencies have recently provided the attached additional guidance to examiners and bankers on the application of this definition. This guidance stresses that the HLT designation does not imply a supervisory criticism of the credit.

The guidance also makes clear that certain extensions of credit, such as loans to debtors-in-possession (DIPs), do not fit the definition of HLT loans and should not be so reported. The criteria for the removal of a loan from HLT status have been expanded in the attached document. The agencies will continue to review these criteria to determine if other steps are warranted in view of the characteristics and performance of HLT credits, including the quality and

reliability of the borrower's cash flow.

2. Other Lending Issues

There appears to be some concern that any new lending by institutions that fail to meet minimum capital requirements will result in supervisory criticism. While it is essential that depository institutions that fail to meet minimum capital standards take effective and timely steps to address this deficiency, such institutions are not necessarily required to cease prudent, low-risk lending activities. Institutions should attain capital compliance in a prudent manner that strengthens their financial conditions. Institutions that seek to improve their capital-to-assets ratios through shrinking their balance sheets should avoid actions that raise their risk exposure, such as the sale of all high-quality assets or of core deposits. Such actions by themselves, or the refusal to lend to sound borrowers, fail to achieve the important objective of improving the quality of under-capitalized institutions' portfolios.

The agencies share common procedures to address capital deficiencies at depository institutions. In general, each agency requires such institutions to prepare a plan that details the steps they will take to attain the minimum capital levels. Approved plans generally do not preclude a continuation of sound lending activities, including prudent steps to work with borrowers encountering financial difficulties.

Similarly, there appears to be some concern that institutions with loan concentrations are automatically turning down good loans. The benefits of adequate portfolio

diversification are well recognized by depository institutions and their regulators. Although the regulatory agencies have not established rigid rules on asset concentrations, they are in agreement that, as a matter of sound operating policy, depository institutions should establish and adhere to policies that control "concentration risk."

Institutions that have in place effective internal controls to manage and reduce undue concentrations over a reasonable period of time, need not automatically refuse credit to sound borrowers. The purpose of institutions' policies should be to improve the overall quality of their portfolios. The replacement of unsound loans with sound loans can enhance the quality of a depository institution's portfolio, even when concentration levels are not reduced.

3. Recognition of Income on Certain Nonperforming Loans

Questions have been raised regarding the recognition of income on loans that have been partially charged-off. This subject is not explicitly addressed in the agencies' regulatory reporting requirements. The agencies wish to clarify that payments can be recognized as income on a cash basis for loans that have been partially charged-off, without requiring that the prior charge-off first be recovered, so long as the remaining book balance is deemed fully collectible.

The agencies, along with the Securities and Exchange Commission (SEC), each plan to solicit public comment on proposed guidelines which would allow certain nonperforming loans to be placed back on accrual status once the loans are reduced to an appropriate level through charge-offs. Any

formal guidance issued will be based on the comments received from the public and on-going discussions between the agencies and the SEC.

The agencies have released today supervisory guidance on a variety of other issues related to nonaccrual assets and formally restructured debt. These guidelines include a discussion of regulatory requirements related to cash basis income recognition, multiple loans to one borrower, and the acquisition of nonaccrual assets.

4. Valuation of Real Estate Loans

In recent months, there have been significant declines in real estate values in certain markets. In response to these declines, examiners have reviewed the adequacy of institutions' loan loss reserves and, where they believed it appropriate, have required additional reserves based on, in part, their estimates of real estate values.

These actions have focused attention on the techniques used to assess the value of real estate, especially commercial real estate. It is important that valuation techniques reflect not only existing market conditions, but also reasonable expectations of the property's performance in the market over time. The Federal regulatory agencies are reiterating their policy on the assessment of real estate values and the establishment of loan loss reserves.

The basic thrust of this guidance is to ensure that income property loans not be assessed solely on the basis of liquidation values but also on the income-producing capacity of the properties over time. Supervisory evaluations should take into account the lack of liquidity and cyclical nature

8

of real estate markets and the temporary imbalances in the supply and demand for real estate that may occur.

5. Review of Supervisory Findings

The agencies want to make clear their policy that any institution may request a review of any major decision reached as part of the supervisory process, including those related to asset classification and required reserve levels.

DISCLOSURE OF NONACCRUAL ASSETS

The purpose of the attached schedule is to provide a suggested format to banking and thrift organizations for reporting more information in public disclosures about nonaccrual assets, including loans, leases, and securities. The additional disclosures presented in this guidance are not required. However, financial institutions are encouraged to disclose publicly this type of information or other information deemed useful or relevant, in order to improve understanding of the impact of nonaccrual assets on the institution's financial condition and results of operations. Such disclosures may utilize whatever format is considered appropriate by the financial institution.

In recent months, the financial institutions industry and their analysts have placed increasing emphasis on the amount of nonaccrual assets at banking and thrift organizations. Current public disclosures about these assets have generally been limited to the total amount of nonaccrual assets, interest income, and interest foregone. Such information may not be sufficient to fully explain the impact of nonaccrual assets on the earnings and financial condition of financial institutions. As a result, some financial institutions have said they want to make additional disclosures about nonaccrual assets in their annual reports.

Attached is an example of a format that could be used to provide additional information on the characteristics of nonaccrual assets and their contribution to net income. This information may prove useful in assessing the prospects for the orderly workout and ultimate repayment of assets placed in nonaccrual status. Nonaccrual loans to developing countries are

-2-

not intended to be included in the attached example, because these are generally disclosed separately.

The detail provided in the example may not be considered appropriate or necessary for all banks. Some banks may elect to disclose more specific categories of nonaccrual assets or only part of the data in the example. Others may wish to disclose principal payments on nonaccrual assets, associated collateral values, or other significant facts. Financial institutions may also consider providing appropriate similar disclosures related to other real estate owned, including net cash inflows from the properties, and a segregation of properties with significant net cash inflows.

Attachment

SAMPLE DISCLOSURE

Generally, the accrual of income is discontinued when the full collection of principal or interest is in doubt, or when the payment of principal or interest has become contractually 90 days past due unless the obligation is both well secured and in the process of collection. Nonaccrual loans amounted to \$___ at December 31, 1990. This amount is net of aggregate charge-offs on these loans of \$___.

Further information regarding the balance of nonaccrual loans at December 31, 1990, and related interest payment information, is as follows:

	Book balance at December 31, 1990 (5)	Contractual balance at December 31, 1990	Cash interest payments applied as (6)(7)		
			interest income	recovery of prior partial charge-offs	reduction of principal
Contractually past due with:					
o substantial performance (1)	\$	\$	\$	\$	\$
o limited performance (2)	\$	\$	\$	\$	\$
o no performance	\$	\$	\$	\$	\$
Contractually current, however,:					
o payment in full of principal or interest in doubt (3)	\$	\$	\$	\$	\$
o other (4)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Total	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

EXPLANATIONS REGARDING SAMPLE NONACCRUAL DISCLOSURE FORMAT

(1) While unable to cure contractual delinquency, the borrower in this category would be consistently making substantial periodic payments relative to the required periodic payments due. If substantial performance is disclosed, management should be able to identify a threshold of performance which it considers to be substantial. While there is not a specified minimum, the threshold should be sufficient to provide a meaningful distinction within the information disclosed. This threshold or definition used should also be disclosed.

The determination of substantial performance will differ depending upon the loan repayment terms. For amortizing loans, both principal and interest payments would likely be considered. For loans with contractual interest-only payments and then a single principal payment at a specified time, interest performance only might be considered. However, if a significant principal payment were missed, then performance would likely be considered something less than substantial. In any event, management should disclose its definition of "substantial" performance.

(2) Borrower is demonstrating less than substantial performance, as defined, but is making some periodic payment.

(3) While not contractually past due, the loan has been placed on nonaccrual status due to doubt as to the full collection of principal or interest. Interest payments on such loans are being applied to reduce principal to the extent necessary to eliminate doubt as to full collectibility of the book balance.

(4) There is no longer doubt as to full collectibility of principal or interest. However, for other reasons, the loan is reported as nonaccrual. For example, interest income is being

-2-

recorded on a cash basis, while the borrower demonstrates a period of performance or interest payments are recorded as loan loss recoveries.

(5) Net of charge-offs to-date and interest payments applied to principal. The book balance should not include any reductions for any allocations of the allowance for loan and lease losses, if such allocations are made.

(6) Represents the application of cash interest payments during 1990, on the loans in nonaccrual status at December 31, 1990, from the time those loans were placed on nonaccrual status. The amount should not include the cash interest payments during the year from any of these loans prior to their placement on nonaccrual status.

It will be likely that some loans will move between categories between reporting dates. In such cases, year-to-date cash interest payment data would be reclassified to the same category where the period-end balance is reported.

(7) Additionally, management may consider it useful to disclose the yield provided from cash payments of interest on nonaccrual loans. A simple rate might be disclosed or data provided to allow the reader to determine the yield, as follows:

(a) As the cash interest data in the table relates to year-end balances only, the disclosure might provide a weighted average book balance of loans on nonaccrual status at December 31, 1990, for the period they were in nonaccrual status during the year then ended. The average balances would be properly weighted when aggregated, to reflect the relative amount of time within the year that individual loans were in nonaccrual status.

-3-

(b) It may prove difficult to monitor and report weighted average balances suggested in (a), above, because they relate to period-end balances. Alternatively, management might supplement the suggested tabular disclosure with the following two disclosures related to nonaccrual activity for the entire reporting period:

- Cash interest payments on all nonaccrual loans while in nonaccrual status during the period (including loans no longer in nonaccrual status at period end). The amount of payments applied to principal should generally be distinguished from those which contributed directly to income to facilitate the determination of yields.

- Average balance of all nonaccrual loans during the period.

**SUPERVISORY GUIDANCE REGARDING THE
DEFINITION OF HIGHLY-LEVERAGED TRANSACTIONS (HLTs)**

The guidelines below are intended to supplement the uniform interagency definition of HLTs and the existing procedures for applying this definition.

Overview. A highly-leveraged transaction is a type of financing which involves the restructuring of an ongoing business concern financed primarily with debt. The purpose of an individual credit is most important when initially determining HLT status. Once an individual credit is designated as an HLT, all currently outstanding and future obligations of the same borrower are also included in HLT totals until such time as the borrower is removed from HLT status.

The regulatory purpose of the HLT definition is to provide a consistent means of aggregating and monitoring this type of financing transaction. The HLT designation does not imply a supervisory criticism of a credit. Before any HLT or any other credit is criticized, an examiner reviews a whole range of factors on a credit-by-credit basis. These factors include cash flow, general ability to pay interest and principal on outstanding debt, economic conditions and trends, the borrower's future prospects, the quality and continuity of the borrower's management, and the lender's collateral position. Participation of banking organizations in highly-leveraged transactions is not considered inappropriate so long as it is conducted in a sound and prudent manner, including the maintenance of adequate capital and loan loss reserves to support the risks associated with these transactions.

Treatment of Debtor-In-Possession (DIP) Financings.

The agencies have further considered the question of whether some DIP loans should be included in the HLT portfolio. One important consideration in this regard is that the bankruptcy estate is considered a legally separate and distinct borrower from the pre-bankruptcy borrower. In addition, loans to DIPs generally do not meet the HLT purpose test. Further, the Chapter 11 bankruptcy code is designed to promote DIP lending and, thereby, affords significant protection to DIP lenders in order to preserve the value of the bankruptcy estate and to promote rehabilitation of the debtor. Therefore, court-approved debtor-in-possession (or trustee-in-possession) financing for a business concern in Chapter 11 reorganization proceedings will generally be exempt from HLT designation. All pre-petition debt of an HLT borrower and any post-reorganization debt (after a company emerges from Chapter 11 bankruptcy) will continue to be included in HLT exposure until delisting occurs.

Guidance on Delisting Credits from HLT Status. Options are being added to the specific HLT delisting criteria that make borrowers eligible for delisting from HLT status when all direct buyout, acquisition, or recapitalization debt satisfying the HLT purpose test has been paid and when companies perform well for an extended period of time, despite operating with high leverage. Further, the wording of the specific delisting criteria pertaining to exposures designated as HLTs because of the 75 percent leverage test is being made consistent with these new options. The general delisting criteria are reiterated below along with the four specific ways to become eligible for delisting from HLT status.

(a) General Criteria -- For credits to become eligible for removal from HLT status, a company must demonstrate an ability to operate successfully as a highly-leveraged

company over a period of time. Under normal circumstances, two years should be sufficient for the credit to show performance and to validate the appropriateness of projections. The banking organization should conduct a thorough review of the obligor to include, at a minimum, overall management performance against the business plan, cash flow coverages, operating margins, status of asset sales, if applicable, reduction in leverage, and industry risk.

(b) Specific Criteria -- In addition to these general criteria, at least one of the following specific criteria must be met to become eligible for delisting:

(1) For exposures that were included because of the 75 percent leverage test, exposures are eligible for delisting from HLT status when leverage is reduced below 75 percent, and the company has demonstrated an ability to continue servicing debt satisfactorily without undue reliance on unplanned asset sales.

(2) If two years have passed since a company's most recent acquisition, buyout, or recapitalization satisfying the HLT purpose test, then the borrower's credits are eligible for delisting from HLT status if all debt satisfying the HLT purpose test is repaid in full, even if the borrower's total liabilities to total assets leverage ratio continues to exceed 75 percent. The refinancing of HLT purpose-related debt through additional borrowings does not constitute a repayment of HLT debt. Rather, the repayment of debt must occur from cash generated from operations, planned sales of assets, or a capital injection.

4

(3) For exposures that were included because of the 75 percent leverage test, a borrower's credits are eligible for delisting when the borrower satisfies the general performance criteria for delisting for at least 4 (four) consecutive years since its last buyout, acquisition, or recapitalization involving financing; the company has a positive net worth; and the company's leverage ratio does not significantly exceed its industry norm. Although this criteria does not require leverage to be reduced to less than 75 percent, the borrower must demonstrate an ability to continue servicing debt satisfactorily without undue reliance on unplanned asset sales.

(4) For those exposures that arose under the "doubling of liabilities to greater than 50 percent" leverage criteria, delisting is acceptable based upon the general criteria in (a) above and a demonstrated ability to satisfactorily continue to service the debt.

As was stated in previous guidance, any significant changes in the borrower's financial condition after delisting should cause the exposure to be reviewed for relisting.

SUPERVISORY GUIDANCE ON CERTAIN ISSUES
RELATING TO NONACCRUAL ASSETS
AND FORMALLY RESTRUCTURED DEBT

Cash basis income recognition. Current regulatory reporting requirements do not preclude the cash basis recognition of income on nonaccrual assets (including loans that have been partially charged off), provided that the remaining book balance of the loan is deemed fully collectible. Recognition of interest income on a cash basis should be limited to that which would have been accrued on the recorded balance at the contractual rate. Any cash interest received in excess of this limit should be recorded as recoveries of prior charge-offs until these charge-offs have been fully recovered.

Multiple loans to one borrower. As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset's collectibility and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a depository institution does not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a depository institution has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets criteria for nonaccrual status, the depository institution should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

Acquisition of nonaccrual assets. A depository institution (or the receiver of a failed institution) may sell loans or debt securities that the institution had maintained in nonaccrual

status. Such loans or debt securities that have been acquired from an unaffiliated third party by a depository institution should be reported by the purchaser in accordance with AICPA Practice Bulletin No. 6. When the criteria specified in this Bulletin are met, these assets may be placed in accrual status.¹

Treatment of formally restructured debt. A loan or other debt instrument that has been formally restructured in accordance with FASB Statement No. 15 so as to be reasonably assured of repayment and of performance according to a reasonable repayment schedule need not be maintained in a nonaccrual status.² In returning the loan to accrual status, sustained historical payment performance for a reasonable time prior to the restructuring may be taken into account.

A FASB 15 restructuring may result in a market yield on the recorded investment in the loan, i.e., an effective interest rate that is equal to the rate that the depository institution is willing to accept for a new loan with comparable risk. While a loan or other debt instrument that qualifies as a FASB Statement No. 15 restructuring must be disclosed as such in the year that the restructuring took place, restructured assets that yield market rates of interest need not continue to be reported as FASB 15 troubled debt restructurings in subsequent years.

¹ Practice Bulletin No. 6, Amortization of Discounts on Certain Acquired Loans. American Institute of Certified Public Accountants, August 1989.

² Statement of Financial Accounting Standards No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, Financial Accounting Standards Board, June 1977.

Other issues. Because an analysis of the Allowance for Loan and Lease Losses (ALLL) requires an assessment of the relative credit risks in the portfolio, many depository institutions attribute for analytical purposes portions of the ALLL to loans and other assets classified "substandard" by management or a supervisory agency. Management may do this because it believes, based on past history or other factors, that there may be unidentified losses associated with loans classified in this category in the aggregate.

Furthermore, management may use this analytical approach in estimating the total amount necessary for the ALLL and in comparing the ALLL to various categories of loans over time. As a general rule, an individual loan classified substandard may remain in accrual status as long as the regulatory reporting requirements for accrual treatment are met, even when an attribution of the ALLL has been made.

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

**Interagency Policy Statement on the Review and
Classification of Commercial Real Estate Loans**

November 7, 1991

The recent decline in credit extended by depository institutions has been attributed to many factors. These factors include the general slowdown in the economy, the overbuilding of commercial real estate properties in some markets, the desire of some household and business borrowers, as well as some depository institutions, to strengthen their balance sheets, changes by lenders in underwriting standards, and concerns about the potential impact of certain supervisory policies or actions. To ensure that regulatory policies and actions do not inadvertently curtail the availability of credit to sound borrowers, the four Federal regulators of banks and thrifts have taken a number of steps to clarify and communicate their policies. The attached policy statement is a further step in this effort.

On March 1, 1991, the four agencies — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of Thrift Supervision — issued general guidelines that addressed a wide range of supervisory policies. Included in the March issuance were brief discussions of the workout of problems loans, lending by undercapitalized institutions, and a general statement on the valuation of real estate loans.

The attached policy statement expands upon the March 1 and subsequent guidance as it relates to the review and classification of commercial real estate loans.

The intent of the statement by the agencies is to provide clear and comprehensive guidance to ensure that supervisory personnel are reviewing loans in a consistent, prudent, and balanced fashion and to ensure that all interested parties are aware of the guidance.

The policy statement emphasizes that the evaluation of real estate loans is not based solely on the value of the collateral, but on a review of the borrower's willingness and capacity to repay and on the income-producing capacity of the properties.

The policy statement also provides guidance on how supervisory personnel analyze the value of collateral. In general, examiners consider the institution's appraisals of collateral (or internal evaluations, when applicable) to determine value and they review the major facts, assumptions and approaches used in determining the value of the collateral. Examiners seek to avoid challenges to underlying assumptions that differ in only a limited way from norms that would generally be associated with the property under review. Nonetheless, when reviewing the value of the collateral and any related management adjustments, examiners ascertain that the value is based on assumptions that are both prudent and realistic, and not on overly optimistic or overly pessimistic assumptions.

The policy statement covers a wide range of specific topics, including:

- the general principles that examiners follow in reviewing commercial real estate loan portfolios;
- the indicators of troubled real estate markets, projects, and related indebtedness;
- the factors examiners consider in their review of individual loans, including the use of appraisals and the determination of collateral value;
- a discussion of approaches to valuing real estate, especially in troubled markets;
- the classification guidelines followed by the agencies, including the treatment of guarantees; and
- the factors considered in the evaluation of an institution's allowance for loan and lease losses.

This statement is intended to ensure that all supervisory personnel, lending institutions and other interested parties have a clear understanding of the agencies' policies.

Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans¹

Introduction

This policy statement addresses the review and classification of commercial real estate loans by examiners of the federal bank and thrift regulatory agencies.² Guidance is also provided on the analysis of the value of the underlying collateral. In addition, this policy statement summarizes principles for evaluating an institution's process for determining the appropriate level for the allowance for loan and lease losses, including amounts that have been based on an analysis of the commercial real estate loan portfolio.³ These guidelines are intended to promote the prudent, balanced, and consistent supervisory treatment of commercial real estate loans, including those to borrowers experiencing financial difficulties.

The attachments to this policy statement address three topics related to the review of commercial real estate loans by examiners. The topics include the treatment of guarantees in the classification process (Attachment 1); background information on the valuation of income-producing commercial real estate loans in the examination process (Attachment 2); and definitions of classification terms used by the federal bank and thrift regulatory agencies (Attachment 3).

Examiner Review of Commercial Real Estate Loans

Loan Policy and Administration Review. As part of the analysis of an institution's commercial real estate loan portfolio, examiners review lending policies, loan administration procedures, and credit risk control procedures. The maintenance of prudent written lending policies, effective internal systems and controls, and thorough

¹ For purposes of this policy statement, "commercial real estate loans" refers to all loans secured by real estate, except for loans secured by 1 - 4 family residential properties. This does not refer to loans where the underlying collateral has been taken solely through an abundance of caution where the terms as a consequence have not been made more favorable than they would have been in the absence of the loan.

² The agencies issuing this policy statement are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

³ For analytical purposes, as part of an overall estimate of the allowance for loan and lease losses (ALLL) management may attribute a portion of the ALLL to the commercial real estate loan portfolio. However, this does not imply that any part of the ALLL is segregated for, or allocated to, any particular asset or group of assets. The ALLL is available to absorb all credit losses originating from the loan and lease portfolio.

For savings institutions, the ALLL is referred to as the "general valuation allowance" for purposes of the Thrift Financial Report.

loan documentation are essential to the institution's management of the lending function.

The policies governing an institution's real estate lending activities must include prudent underwriting standards that are periodically reviewed by the board of directors and clearly communicated to the institution's management and lending staff. The institution must also have credit risk control procedures that include, for example, prudent internal limits on exposure, an effective credit review and classification process, and a methodology for ensuring that the allowance for loan and lease losses is maintained at an adequate level. The complexity and scope of these policies and procedures should be appropriate to the size of the institution and the nature of the institution's activities, and should be consistent with prudent banking practices and relevant regulatory requirements.

Indicators of Troubled Real Estate Markets and Projects, and Related Indebtedness. In order to evaluate the collectibility of an institution's commercial real estate portfolio, examiners should be alert for indicators of weakness in the real estate markets served by the institution. They should also be alert for indicators of actual or potential problems in the individual commercial real estate projects or transactions financed by the institution.

Available indicators, such as permits for — and the value of — new construction, absorption rates, employment trends, and vacancy rates, are useful in evaluating the condition of commercial real estate markets. Weaknesses disclosed by these types of statistics may indicate that a real estate market is experiencing difficulties that may result in cash flow problems for individual real estate projects, declining real estate values, and ultimately, in troubled commercial real estate loans.

Indicators of potential or actual difficulties in commercial real estate projects may include:

- An excess of similar projects under construction.
- Construction delays or other unplanned adverse events resulting in cost overruns that may require renegotiation of loan terms.
- Lack of a sound feasibility study or analysis that reflects current and reasonably anticipated market conditions.
- Changes in concept or plan (for example, a condominium project converted to an apartment project because of unfavorable market conditions).
- Rent concessions or sales discounts resulting in cash flow below the level projected in the original feasibility study or appraisal.
- Concessions on finishing tenant space, moving expenses, and lease buyouts.

- Slow leasing or lack of sustained sales activity and increasing sales cancellations that may reduce the project's income potential, resulting in protracted repayment or default on the loan.
- Delinquent lease payments from major tenants.
- Land values that assume future rezoning.
- Tax arrearages.

As the problems associated with a commercial real estate project become more pronounced, problems with the related indebtedness may also arise. Such problems include diminished cash flow to service the debt and delinquent interest and principal payments.

While some commercial real estate loans become troubled because of a general downturn in the market, others become troubled because they were originated on an unsound or a liberal basis. Common examples of these types of problems include:

- Loans with no or minimal borrower equity.
- Loans on speculative undeveloped property where the borrowers' only source of repayment is the sale of the property.
- Loans based on land values that have been driven up by rapid turnover of ownership, but without any corresponding improvements to the property or supportable income projections to justify an increase in value.
- Additional advances to service an existing loan that lacks credible support for full repayment from reliable sources.
- Loans to borrowers with no development plans or noncurrent development plans.
- Renewals, extensions and refinancings that lack credible support for full repayment from reliable sources and that do not have a reasonable repayment schedule.⁴

Examiner Review of Individual Loans, Including the Analysis of Collateral Value. The focus of an examiner's review of a commercial real estate loan, including binding commitments, is the ability of the loan to be repaid. The principal factors that bear on this analysis are the income-producing potential of the underlying collateral and the borrower's willingness and capacity to repay under the existing loan terms from the borrower's other resources if necessary. In evaluating the overall risk associated with

As discussed more fully in the section on classification guidelines, the refinancing or renewing of loans to sound borrowers would not result in a supervisory classification or criticism unless well-defined weaknesses exist that jeopardize repayment of the loans. Consistent with sound banking practices, institutions should work in an appropriate and constructive manner with borrowers who may be experiencing temporary difficulties.

a commercial real estate loan, examiners consider a number of factors, including the character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of the underlying collateral.⁵ However, as other sources of repayment for a troubled commercial real estate loan become inadequate over time, the importance of the collateral's value in the analysis of the loan necessarily increases.

The appraisal regulations of the federal bank and thrift regulatory agencies require institutions to obtain appraisals when certain criteria are met.⁶ Management is responsible for reviewing each appraisal's assumptions and conclusions for reasonableness. Appraisal assumptions should not be based solely on current conditions that ignore the stabilized income-producing capacity of the property.⁷ Management should adjust any assumptions used by an appraiser in determining value that are overly optimistic or pessimistic.

An examiner analyzes the collateral's value as determined by the institution's most recent appraisal (or internal evaluation, as applicable). An examiner reviews the major facts, assumptions, and approaches used by the appraiser (including any comments made by management on the value rendered by the appraiser). Under the circumstances described below, the examiner may make adjustments to this assessment of value. This review and any resulting adjustments to value are solely for purposes of an examiner's analysis and classification of a credit and do not involve actual adjustments to an appraisal.

A discounted cash flow analysis is an appropriate method for estimating the value of income-producing real estate collateral.⁸ This approach is discussed in more detail in Attachment 2. This analysis should not be based solely on the current performance of the collateral or similar properties; rather, it should take into account, on a discounted basis, the ability of the real estate to generate income over time based upon reasonable and supportable assumptions.

⁵ The treatment of guarantees in the classification process is discussed in Attachment 1.

⁶ Department of the Treasury, Office of the Comptroller of the Currency, 12 CFR Part 34 (Docket No. 90-16); Board of Governors of the Federal Reserve System, 12 CFR Parts 208 and 225 (Regulation H and Y; Docket No. R-0685); Federal Deposit Insurance Corporation, 12 CFR 323 (RIN 3064-AB05); Department of the Treasury, Office of Thrift Supervision, 12 CFR Part 564 (Docket No. 90-1495).

⁷ Stabilized income generally is defined as the yearly net operating income produced by the property at normal occupancy and rental rates; it may be adjusted upward or downward from today's actual market conditions.

⁸ The real estate appraisal regulations of the federal bank and thrift regulatory agencies include a requirement that an appraisal (a) follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value; (b) reconcile these approaches; and (c) explain the elimination of each approach not used. A discounted cash flow analysis is recognized as a valuation method for the income approach.

When reviewing the reasonableness of the facts and assumptions associated with the value of the collateral, examiners may evaluate:

- Current and projected vacancy and absorption rates;
- Lease renewal trends and anticipated rents;
- Volume and trends in past due leases;
- Effective rental rates or sale prices (taking into account all concessions);
- Net operating income of the property as compared with budget projections; and
- Discount rates and direct capitalization ("cap") rates.⁹

The capacity of a property to generate cash flow to service a loan is evaluated based upon rents (or sales), expenses, and rates of occupancy that are reasonably estimated to be achieved over time. The determination of the level of stabilized occupancy and rental rates should be based upon an analysis of current and reasonably expected market conditions, taking into consideration historical levels when appropriate. The analysis of collateral values should not be based upon a simple projection of current levels of net operating income if markets are depressed or reflect speculative pressures but can be expected over a reasonable period of time to return to normal (stabilized) conditions. Judgment is involved in determining the time that it will take for a property to achieve stabilized occupancy and rental rates.

Examiners do not make adjustments to appraisal assumptions for credit analysis purposes based on worst case scenarios that are unlikely to occur. For example, an examiner would not necessarily assume that a building will become vacant just because an existing tenant who is renting at a rate above today's market rate may vacate the property when the current lease expires. On the other hand, an adjustment to value may be appropriate for credit analysis purposes when the valuation assumes renewal at the above-market rate, unless that rate is a reasonable estimate of the expected market rate at the time of renewal.

When estimating the value of income-producing real estate, discount rates and "cap" rates should reflect reasonable expectations about the rate of return that investors require under normal, orderly and sustainable market conditions. Exaggerated, imprudent, or unsustainably high or low discount rates, "cap" rates, and income projections should not be used. Direct capitalization of nonstabilized income flows should also not be used.

Assumptions, when recently made by qualified appraisers (and, as appropriate, by institution management) and when consistent with the discussion above, should be

⁹ Attachment 2 includes a discussion of discount rates and direct capitalization rates.

given a reasonable amount of deference. Examiners should not challenge the underlying assumptions, including discount rates and "cap" rates used in appraisals, that differ only in a limited way from norms that would generally be associated with the property under review. The estimated value of the underlying collateral may be adjusted for credit analysis purposes when the examiner can establish that any underlying facts or assumptions are inappropriate and can support alternative assumptions.

Classification Guidelines

As with other types of loans, commercial real estate loans that are adequately protected by the current sound worth and debt service capacity of the borrower, guarantor, or the underlying collateral generally are not classified. Similarly, loans to sound borrowers that are refinanced or renewed in accordance with prudent underwriting standards, including loans to creditworthy commercial or residential real estate developers, should not be classified or criticized unless well-defined weaknesses exist that jeopardize repayment. An institution will not be criticized for continuing to carry loans having weaknesses that result in classification or criticism as long as the institution has a well-conceived and effective workout plan for such borrowers, and effective internal controls to manage the level of these loans.

In evaluating commercial real estate credits for possible classification, examiners apply standard classification definitions (Attachment 3).¹⁰ In determining the appropriate classification, consideration should be given to all important information on repayment prospects, including information on the borrower's creditworthiness, the value of, and cash flow provided by, all collateral supporting the loan, and any support provided by financially responsible guarantors.

The loan's record of performance to date is important and must be taken into consideration. As a general principle, a performing commercial real estate loan should not automatically be classified or charged-off solely because the value of the underlying collateral has declined to an amount that is less than the loan balance. However, it would be appropriate to classify a performing loan when well-defined weaknesses exist that jeopardize repayment, such as the lack of credible support for full repayment from reliable sources.¹¹

These principles hold for individual credits, even if portions or segments of the industry to which the borrower belongs are experiencing financial difficulties. The evaluation of each credit should be based upon the fundamental characteristics

¹⁰ These definitions are presented in Attachment 3 and address assets classified "substandard," "doubtful," or "loss" for supervisory purposes.

¹¹ Another issue that arises in the review of a commercial real estate loan is the loan's treatment as an accruing asset or as a nonaccruing asset for reporting purposes. The federal bank and thrift regulatory agencies have provided guidance on nonaccruing status in the instructions for the Reports of Condition and Income (Call Reports) for banks, and in the instructions for the Thrift Financial Report for savings associations, and in related supervisory guidance of the agencies.

affecting the collectibility of the particular credit. The problems broadly associated with some sectors or segments of an industry, such as certain commercial real estate markets, should not lead to overly pessimistic assessments of particular credits that are not affected by the problems of the troubled sectors.

Classification of troubled project-dependent commercial real estate loans.¹² The following guidelines for classifying a troubled commercial real estate loan apply when the repayment of the debt will be provided solely by the underlying real estate collateral, and there are no other available and reliable sources of repayment.

As a general principle, for a troubled project-dependent commercial real estate loan, any portion of the loan balance that exceeds the amount that is adequately secured by the value of the collateral, and that can clearly be identified as uncollectible, should be classified "loss."¹³ The portion of the loan balance that is adequately secured by the value of the collateral should generally be classified no worse than "substandard." The amount of the loan balance in excess of the value of the collateral, or portions thereof, should be classified "doubtful" when the potential for full loss may be mitigated by the outcomes of certain pending events, or when loss is expected but the amount of the loss cannot be reasonably determined.

If warranted by the underlying circumstances, an examiner may use a "doubtful" classification on the entire loan balance. However, this would occur infrequently.

Guidelines for classifying partially charged-off loans. Based upon consideration of all relevant factors, an evaluation may indicate that a credit has well-defined weaknesses that jeopardize collection in full, but that a portion of the loan may be reasonably assured of collection. When an institution has taken a charge-off in an amount sufficient that the remaining recorded balance of the loan (a) is being serviced (based upon reliable sources) and (b) is reasonably assured of collection, classification of the remaining recorded balance may not be appropriate. Classification would be appropriate when well-defined weaknesses continue to be present in the remaining recorded balance. In such cases, the remaining recorded balance would generally be classified no more severely than "substandard."

A more severe classification than "substandard" for the remaining recorded balance would be appropriate if the loss exposure cannot be reasonably determined, e.g., where significant risk exposures are perceived, such as might be the case for bankruptcy situations or for loans collateralized by properties subject to environmental hazards. In addition, classification of the remaining recorded balance would be appropriate when sources of repayment are considered unreliable.

¹² The discussion in this section is not intended to address loans that must be treated as "other real estate owned" for bank regulatory reporting purposes or "real estate owned" for thrift regulatory reporting purposes. Guidance on these assets is presented in supervisory and reporting guidance of the agencies.

¹³ For purposes of this discussion, the "value of the collateral" is the value used by the examiner for credit analysis purposes, as discussed in a previous section of this policy statement.

Guidelines for classifying formally restructured loans. The classification treatment previously discussed for a partially charged off loan would also generally be appropriate for a formally restructured loan when partial charge-offs have been taken. For a formally restructured loan, the focus of the examiner's analysis is on the ability of the borrower to repay the loan in accordance with its modified terms. Classification of a formally restructured loan would be appropriate, if, after the restructuring, well-defined weaknesses exist that jeopardize the orderly repayment of the loan in accordance with reasonable *modified terms*.¹⁴ Troubled commercial real estate loans whose terms have been restructured should be identified in the institution's internal credit review system, and closely monitored by management.

Review of the Allowance for Loan and Lease Losses (ALLL)¹⁵

The adequacy of a depository institution's ALLL, including amounts based on an analysis of the commercial real estate portfolio, must be based on a careful, well documented, and consistently applied analysis of the institution's loan and lease portfolio.¹⁶

The determination of the adequacy of the ALLL should be based upon management's consideration of all current significant conditions that might affect the ability of borrowers (or guarantors, if any) to fulfill their obligations to the institution. While historical loss experience provides a reasonable starting point, historical losses or even recent trends in losses are not sufficient without further analysis and cannot produce a reliable estimate of anticipated loss.

In determining the adequacy of the ALLL, management should also consider other factors, including changes in the nature and volume of the portfolio; the experience, ability, and depth of lending management and staff; changes in credit standards; collection policies and historical collection experience; concentrations of credit risk; trends in the volume and severity of past due and classified loans; and trends in the volume of nonaccrual loans, specific problem loans and commitments. In addition, this analysis should consider the quality of the institution's systems and management in identifying, monitoring, and addressing asset quality problems. Furthermore, management should consider external factors such as local and national economic conditions and

¹⁴ An example of a restructured commercial real estate loan that does not have reasonable modified terms would be a "cash flow" mortgage which requires interest payments only when the underlying collateral generates cash flow but provides no substantive benefits to the lending institution.

¹⁵ Each of the federal bank and thrift regulatory agencies have issued guidance on the allowances for loan and lease losses. The following discussion summarizes general principles for assessing the adequacy of the allowances for loan and lease losses.

¹⁶ The estimation process described in this section permits for a more accurate estimate of anticipated losses than could be achieved by assessing the loan portfolio solely on an aggregate basis. However, it is only an estimation process and does not imply that any part of the ALLL is segregated for, or allocated to, any particular asset or group of assets. The ALLL is available to absorb all credit losses originating from the loan and lease portfolio.

developments; competition; and legal and regulatory requirements; as well as reasonably foreseeable events that are likely to affect the collectibility of the loan portfolio.

Management should adequately document the factors that were considered, the methodology and process that were used in determining the adequacy of the ALLL, and the range of possible credit losses estimated by this process. The complexity and scope of this analysis must be appropriate to the size and nature of the institution and provide for sufficient flexibility to accommodate changing circumstances.

Examiners will evaluate the methodology and process that management has followed in arriving at an overall estimate of the ALLL in order to assure that all of the relevant factors affecting the collectibility of the portfolio have been appropriately considered. In addition, the overall estimate of the ALLL and the range of possible credit losses estimated by management will be reviewed for reasonableness in view of these factors. This examiner analysis will also consider the quality of the institution's systems and management in identifying, monitoring, and addressing asset quality problems.

As discussed in the previous section on classification guidelines, the value of the collateral is considered by examiners in reviewing and classifying a commercial real estate loan. However, for a performing commercial real estate loan, the supervisory policies of the agencies do *not* require automatic increases to the ALLL solely because the value of the collateral has declined to an amount that is less than the loan balance.

In assessing the ALLL during examinations, it is important to recognize that management's process, methodology, and underlying assumptions require a substantial degree of judgment. Even when an institution maintains sound loan administration and collection procedures and effective internal systems and controls, the estimation of anticipated losses may not be precise due to the wide range of factors that must be considered. Further, the ability to estimate anticipated loss on specific loans and categories of loans improves over time as substantive information accumulates regarding the factors affecting repayment prospects. When management has (a) maintained effective systems and controls for identifying, monitoring and addressing asset quality problems and (b) analyzed all significant factors affecting the collectibility of the portfolio, considerable weight should be given to management's estimates in assessing the adequacy of the ALLL.

TREATMENT OF GUARANTEES IN THE CLASSIFICATION PROCESS

Initially, the original source of repayment and the borrower's intent and ability to fulfill the obligation without reliance on third party guarantors will be the primary basis for the review and classification of assets.¹ The federal bank and thrift regulatory agencies will, however, consider the support provided by guarantees in the determination of the appropriate classification treatment for troubled loans. The presence of a guarantee from a "financially responsible guarantor," as described below, may be sufficient to preclude classification or reduce the severity of classification.

For purposes of this discussion, a guarantee from a "financially responsible guarantor" has the following attributes:

- The guarantor must have *both* the financial capacity and willingness to provide support for the credit;
- The nature of the guarantee is such that it can provide support for repayment of the indebtedness, in whole or in part, during the remaining loan term; and²
- The guarantee should be legally enforceable.

The above characteristics generally indicate that a guarantee may improve the prospects for repayment of the debt obligation.

Considerations relating to a guarantor's financial capacity. The lending institution must have sufficient information on the guarantor's financial condition, income, liquidity, cash flow, contingent liabilities, and other relevant factors (including credit ratings, when available) to demonstrate the guarantor's financial capacity to fulfill the obligation. Also, it is important to consider the number and amount of guarantees currently extended by a guarantor, in order to determine that the guarantor has the financial capacity to fulfill the contingent claims that exist.

Considerations relating to a guarantor's willingness to repay. Examiners normally rely on their analysis of the guarantor's financial strength and assume a willingness to perform unless there is evidence to the contrary. This assumption may be modified

¹ Some loans are originated based primarily upon the financial strength of the guarantor, who is, in substance, the primary source of repayment. In such circumstances, examiners generally assess the collectibility of the loan based upon the guarantor's ability to repay the loan.

² Some guarantees may only provide for support for certain phases of a real estate project. It would not be appropriate to rely upon these guarantees to support a troubled loan after the completion of these phases.

based on the "track record" of the guarantor, including payments made to date on the asset under review or other obligations.

Examiners give due consideration to those guarantors that have demonstrated their ability and willingness to fulfill previous obligations in their evaluation of current guarantees on similar assets. An important consideration will be whether previously required performance under guarantees was voluntary or the result of legal or other actions by the lender to enforce the guarantee. However, examiners give limited credence, if any, to guarantees from obligors who have reneged on obligations in the past, unless there is clear evidence that the guarantor has the ability and intent to honor the specific guarantee obligation under review.

Examiners also consider the economic incentives for performance from guarantors:

- Who have already partially performed under the guarantee or who have other significant investments in the project;
- Whose other sound projects are cross-collateralized or otherwise intertwined with the credit; or
- Where the guarantees are collateralized by readily marketable assets that are under the control of a third party.

Other considerations. In general, only guarantees that are legally enforceable will be relied upon. However, all legally enforceable guarantees may not be acceptable. In addition to the guarantor's financial capacity and willingness to perform, it is expected that the guarantee will not be subject to significant delays in collection, or undue complexities or uncertainties about the guarantee.

The nature of the guarantee is also considered by examiners. For example, some guarantees for real estate projects only pertain to the development and construction phases of the project. As such, these limited guarantees would not be relied upon to support a troubled loan after the completion of those phases.

Examiners also consider the institution's intent to enforce the guarantee and whether there are valid reasons to preclude an institution from pursuing the guarantee. A history of timely enforcement and successful collection of the full amount of guarantees will be a positive consideration in the classification process.

Attachment 2

THE VALUATION OF INCOME-PRODUCING REAL ESTATE**Approaches to the Valuation of Real Estate**

Appraisals are professional judgments of the market value of real property. Three basic valuation approaches are used by professional appraisers in estimating the market value of real property – the cost approach, the market data or direct sales comparison approach, and the income approach. The principles governing the three approaches are widely known in the appraisal field and were recently referenced in parallel regulations issued by each of the federal bank and thrift regulatory agencies. When evaluating the collateral for problem credits, the three valuation approaches are not equally appropriate.

1. **Cost Approach.** In the cost approach, the appraiser estimates the reproduction cost of the building and improvements, deducts estimated depreciation, and adds the value of the land. The cost approach is particularly helpful when reviewing draws on construction loans. However, as the property increases in age, both reproduction cost and depreciation become more difficult to estimate. Except for special purpose facilities, the cost approach is usually inappropriate in a troubled real estate market because construction costs for a new facility normally exceed the market value of existing comparable properties.
2. **Market Data or Direct Sales Comparison Approach.** This approach examines the price of similar properties that have sold recently in the local market, estimating the value of the subject property based on the comparable properties' selling price. It is very important that the characteristics of the observed transactions be similar in terms of market location, financing terms, property condition and use, timing, and transaction costs. The market approach generally is used in valuing owner-occupied residential property because comparable sales data are typically available. When adequate sales data are available, an analyst generally will give the most weight to this type of estimate. Often, however, the available sales data for commercial properties are not sufficient to justify a conclusion.
3. **The Income Approach.** The economic value of an income-producing property is the discounted value of the future net operating income stream, including any "reversion" value of property when sold. If competitive markets are working perfectly, the observed sales price should be equal to this value. For unique properties or in markets that are thin or subject to disorderly or unusual conditions, market value based on a comparable sales approach may be either unavailable or distorted. In such cases, the income approach is usually the appropriate method for valuing the property.

The income approach converts all expected future net operating income into present value terms. When market conditions are stable and no unusual patterns of future rents and occupancy rates are expected, the direct capitalization method is often used to estimate the present value of future income streams. For troubled properties, however, examiners typically utilize the more explicit discounted cash flow (net present value) method for analytical purposes. In that method, a time frame for achieving a "stabilized", or normal, occupancy and rent level is projected. Each year's net operating income during that period is discounted to arrive at the present value of expected future cash flows. The property's anticipated sales value at the end of the period until stabilization (its terminal or reversion value) is then estimated. The reversion value represents the capitalization of all future income streams of the property after the projected occupancy level is achieved. The terminal or reversion value is then discounted to its present value and added to the discounted income stream to arrive at the total present market value of the property.

Valuation of Troubled Income-Producing Properties

When an income property is experiencing financial difficulties due to general market conditions or due to its own characteristics, data on comparable property sales often are difficult to obtain. Troubled properties may be hard to market, and normal financing arrangements may not be available. Moreover, forced and liquidation sales can dominate market activity. When the use of comparables is not feasible (which is often the case for commercial properties), the net present value of the most reasonable expectation of the property's income-producing capacity — not just in today's market but over time — offers the most appropriate method of valuation in the supervisory process.

Estimates of the property's value should be based upon reasonable and supportable projections of the determinants of future net operating income: rents (or sales), expenses and rates of occupancy. Judgment is involved in estimating all of these factors. The primary considerations for these projections include historical levels and trends, the current market performance achieved by the subject and similar properties, and economically feasible and defensible projections of future demand and supply conditions. To the extent that current market activity is dominated by a limited number of transactions or liquidation sales, high "capitalization" and discount rates implied by such transactions should not be used. Rather, analysts should use rates that reflect market conditions that are *neither* highly speculative nor depressed for the type of property being valued and that property's location.

This method alone is not appropriate for troubled real estate since income generated by the property is not at normal or stabilized levels. In evaluating troubled real estate, ordinary discounting typically is used for the period before the project reaches its full income potential. A "terminal" "cap" rate is then utilized to estimate the value of the property (its reversion or sales price) at the end of that period.

Differences Between Discount and Cap Rates. When used for estimating real estate market values, discount and "cap" rates should reflect the current market requirements for rates of return on properties of a given type. The discount rate is the required rate of return including the expected increases in future prices and is applied to income streams reflecting inflation. In contrast, the "cap" rate is used in conjunction with a stabilized net operating income figure. The fact that discount rates for real estate are typically higher than "cap" rates reflects the principal difference in the treatment of expected increases in net operating income and/or property values.

Other factors affecting the "cap" rate used (but not the discount rate) include the useful life of the property and financing arrangements. The useful life of the property being evaluated affects the magnitude of the "cap" rate because the income generated by a property, in addition to providing the required return on investment, must be sufficient to compensate the investor for the depreciation of the property over its useful life. The longer the useful life, the smaller is the depreciation in any one year; hence, the smaller is the annual income required by the investor, and the lower is the "cap" rate. Differences in terms and the extent of debt financing and the related costs must also be taken into account.

Selecting Discount and Cap Rates. The choice of the appropriate values for discount and "cap" rates is a key aspect of income analysis. Both in markets marked by lack of transactions and those characterized by highly speculative or unusually pessimistic attitudes, analysts consider historical required returns on the type of property in question. Where market information is available to determine current required yields, analysts carefully analyze sales prices for differences in financing, special rental arrangements, tenant improvements, property location, and building characteristics. In most local markets, the estimates of discount and "cap" rates used in income analysis should generally fall within a fairly narrow range for comparable properties.

Holding Period vs. Marketing Period. When the income approach is applied to troubled properties, a time frame is chosen over which a property is expected to achieve stabilized occupancy and rental rates (stabilized income). That time period is sometimes referred to as the "holding period." The longer the period before stabilization, the smaller will be the reversion value included in the total value estimate.

The holding period should be distinguished from the concept of "marketing period" — a term used in estimating the value of a property under the sales comparison approach

and in discussions of property value when real estate is being sold. The marketing period is the length of time that may be required to sell the property in an open market.

Glossary

Appraisal. A written statement independently and impartially prepared by a qualified appraiser setting forth an opinion as to the market value of an adequately described property as of a specific date(s), supported by the presentation and analysis of relevant market information.

Capitalization rate. A rate used to convert income into value. Specifically, it is the ratio between a property's stabilized net operating income and the property's sales price. Sometimes referred to as an overall rate because it can be computed as a weighted average of component investment claims on net operating income.

Discount rate. A rate of return used to convert future payments or receipts into their present value.

Holding period. The time frame over which a property is expected to achieve stabilized occupancy and rental rates (stabilized income).

Market value. The most probable cash sale price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated (i.e., motivated by self-interest);
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Marketing period. The term in which an owner of a property is actively attempting to sell that property in a competitive and open market.

Net operating income (NOI). Annual income after all expenses have been deducted, except for depreciation and debt service.

Attachment 3

Classification Definitions¹

The federal bank and thrift regulatory agencies currently utilize the following definitions for assets classified "substandard," "doubtful," and "loss" for supervisory purposes:

Substandard Assets. A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Assets. An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss Assets. Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

¹ Office of the Comptroller of the Currency, *Comptroller's Handbook for National Bank Examiners*, Section 215.1, "Classification of Credits;" Board of Governors of the Federal Reserve System, *Commercial Bank Examination Manual*, Section 215.1, "Classification of Credits;" Office of Thrift Supervision, *Thrift Activities Regulatory Handbook*, Section 260, "Classification of Assets;" Federal Deposit Insurance Corporation, *Division of Supervision Manual of Examination Policies*, Section 3.1, "Loans."

ADMINISTRATION ACTIONS TO EASE THE
CREDIT CRUNCH AND PROMOTE ECONOMIC GROWTH

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EASING THE CREDIT CRUNCH TO PROMOTE ECONOMIC GROWTH

Secretary of the Treasury Nicholas Brady today announced new steps in the Administration's ongoing efforts to address "credit crunch" problems identified by the business community, bankers, and regulators. The steps build on the President's economic agenda and are aimed at sustaining the economic recovery.

"Maintaining the economic recovery depends on banks playing their traditional role, businesses making investments, and consumers purchasing goods and services," Brady said. Recent statistics show employment levels, housing starts, and industrial production rising. The Administration wants to insure that proper balance in the regulation of the banking sector continues the upward trend and that Congress passes other Administration economic growth proposals.

The Administration's new steps were developed in consultation with the Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and the Office of Thrift Supervision. They are designed to promote confidence and balance in the lending environment, and to help businesses and consumers in their economic activity.

The Administration's program builds on the previous efforts by the Treasury Department and financial regulators to assure that sound businesses and consumers can get needed credit. These efforts include encouraging lenders to make prudent loans and assuring that examiners perform their reviews in a balanced, sensible manner. The federal banking and thrift regulators have stated that they do not want the availability of credit to sound borrowers to be adversely affected by supervisory policies or depository institutions' misunderstandings about them.

In particular, the Administration, while avoiding any encouragement of regulatory laxity, wants to ensure that the specific guidance issued by the regulators over the past several months is being fully implemented by examiners in the field, and that additional opportunities for assuring balanced regulation are pursued. Among the areas addressed are:

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- Directives that bankers should work constructively with borrowers experiencing temporary difficulties and facilitate the orderly restructuring of credits;
- Prudent refinancing of economically sound commercial real estate loans;
- Improved verification by regulatory supervisors that recent policy changes and clarifications are appropriately applied in each examination;
- Enhancements in the process for appeals of alleged misapplication of regulatory standards;
- Harmonization of the treatment of preferred stock in U.S. capital standards with other signatory countries under the Basle capital accord;
- Appropriate application of valuation standards especially in real estate credits so as to avoid a liquidation approach to valuation;
- Improved guidance in the appraisal process and steps to reduce excessive appraisal costs for lenders;
- Legislative action to make permanent recent EPA regulations to limit lender liability for environmental cleanup of loan collateral properties;

This program is in addition to the President's comprehensive economic growth package, which has been stalled in the Congress. These proposals designed for increasing job-creating investment include: reducing the capital gains tax, permanently extending the research and experimentation tax credit, establishing enterprise zones, and promoting saving through Family Savings Accounts and expanded Individual Retirement Accounts. "These proposals should be voted upon without delay," Brady said.

"Congress can also help by passing the Administration's comprehensive banking reform legislation and approving its nominees for top financial regulatory positions which are before the Senate. Holding up these measures and appointments creates further uncertainty about fiscal, monetary, and regulatory policies," Brady said.

Details of the Administration program are found on the attached fact sheet.

EASING THE CREDIT CRUNCH TO HELP PROMOTE ECONOMIC GROWTHFACT SHEET**I. NEW REGULATORY ACTIONS TO BE IMPLEMENTED****A. Efforts to Improve Lending Environment****Conform U. S. Implementation of Basle Capital Standards**

Conform U. S. treatment of Preferred Stock in Tier One capital with other countries under the Basle accord. No amendment to the Basle capital standards is needed.

Removing this ceiling will give bank holding companies an additional method of raising Tier One capital, as there are investors who prefer preferred stock to common shares.

This could result in an increase in Tier One capital and thus expand lending capacity.

The target date for completing this conforming change is October 31, 1991.

B. Build Banker Confidence**1. Enhanced Examination Appeals Process**

Each agency has an existing appeals process for bankers who believe that examiners have made an error in their evaluation of loans. Although the guidelines issued March 1st encouraged bankers to take advantage of this mechanism, few bankers have done so.

Thus, it is recommended that the appeals process be strengthened by allowing a banker to appeal directly to senior officials or a Reserve Bank President separate from the supervisory process. Investigations would be conducted in a confidential manner.

Each regulatory agency will implement this system by November 15, 1991.

2. Improve Examination Management

In order to further assure that consistent and balanced examination standards are applied, agencies will take the following steps:

- a. Regional supervisory management will be required to:
- i) make sure that the March 1st policy changes and clarifications, and all subsequent guidelines, have been effectively communicated to each examiner;
 - ii) make sure that these policy changes and guidelines have been explained to the banker by the examiner in each examination; and
 - iii) certify that these policy changes and clarifications, and all subsequent guidance, have been followed by examiners in each exam.

These policy changes and clarifications include the instruction that:

- o bankers should work in an appropriate and constructive fashion with borrowers who may be experiencing temporary difficulties;
- o income producing property loans are to be assessed on the income-producing capacity of the properties over time. Examiners should take into account the lack of liquidity and cyclical nature of real estate markets. Liquidation appraisal values are to be used only if the property is to be liquidated;
- o banks with real estate concentrations should not automatically refuse new credit to sound real estate developers or to work with existing borrowers;
- o regulatory agencies do not have rigid rules (or percentages) on asset concentrations, as bankers and regulators know well the benefits of adequate portfolio diversification;
- o institutions attempting to raise capital by shrinking assets should avoid actions such as the sale of all high-quality assets. Such actions by themselves, or the refusal to make sound, new loans, fail to achieve an important goal of improving the quality of the institution's loan portfolio;
- o bankers and examiners should not lump all real estate together: distinctions should be made. For example, credit for a residential builder, should not be automatically penalized by local oversupply conditions in commercial office development;
- o bankers should facilitate the orderly restructuring of

troubled credits by using established techniques under FASB 15, "Troubled Debt Restructurings"; and

- o banks should be able to prudently refinance commercial real estate loans without fear of regulatory retribution ("mini-perm" guidance).
- b. The agencies will develop a method for regular communication with bankers by central office and/or regional senior personnel to determine banker views on the fairness and balance of examination standards and practices. Examples of this communication would include polling and regular meetings with bankers.

The agencies will implement these changes by November 15, 1991.

C. Improve Real Estate Guidance

1. Real Estate Valuation Policies

The bank and thrift regulatory agencies have been developing a uniform and comprehensive set of real estate examination guidelines, especially for real estate in troubled markets. These detailed guidelines cover loan classification procedures, indicators of troubled loans, proper analysis of appraisals and loan values, and proper reserve analysis.

These guidelines will be released by October 31, 1991 and will be distributed to all examiners -- and bankers.

2. Use of Appraisals

As a part of Subsection 1 above, a letter will be sent by the primary regulator to every bank chief executive outlining the guidelines for using appraisals emphasizing balance and appropriate time lines.

3. Random Audit Program

The regulatory agencies would establish quality control through a random audit program to determine how examiners are using appraisals in the loan documentation process.

This can be implemented by October 31, 1991.

4. Appraisal Costs

The Administration supports the actions taken recently by the regulatory agencies to limit the costs of appraisals on residential real estate loans by raising the minimum loan size subject to appraisal requirements to \$100,000 from \$50,000.

The Administration calls on the regulatory agencies to consider additional steps that can be taken administratively to lower the burden of appraisal costs, especially for home buyers and small business.

The agencies will report their recommendations to the Secretary of the Treasury by January 1, 1992.

D. Further Clarify the Definition of Highly Leveraged Transaction (HLT)

Leveraged borrowers in businesses such as cable television or broadcast media have cited the HLT definition as unreasonably restraining credit to their industries.

The agencies published their definition for public comment in the Federal Register. The comment period concluded on September 23, 1991, resulting in over 200 comment letters.

The regulatory agencies will review the comments and propose improvements to the definition by December 1, 1991.

E. Convene National Meeting of Examiners

The Treasury Secretary has requested that by mid-November, 1991, the regulatory agencies convene a meeting of all key supervisory management and senior field examination professionals.

Examiners would participate in a series of meetings about the economy and a thorough briefing on the policy changes and guidelines and their application.

II. PROPOSALS THAT WOULD HELP CURE THE CREDIT CRUNCH WHICH REQUIRE ACTION BY CONGRESS

The Administration supports a number of legislative proposals that would promote savings and economic growth, make the financial sector more efficient and create a better climate for lending. These include:

A. Banking Reform

The President's Banking Reform bill will spur confidence for investment by assuring that the United States has a modern banking system with stronger, safer banks.

Stronger, more competitive banks would have greater flexibility in working with borrowers to avoid future credit crunches.

B. Lender Liability Reform

Banks have been reluctant to make certain loans because of recent court cases that have found lenders liable for environmental clean-up costs, even when the bank's only interest in a property is a security interest to secure a loan.

To address this uncertainty concern, the EPA issued a proposed regulation interpreting the Superfund Act which would properly limit lenders' liability for any Superfund clean-up costs as long their participation is merely that of a lender, and not a long term operator.

To make this certainty permanent, the Administration is supportive of efforts to further clarify these rule changes in statute.

C. The President's Growth Initiatives

To increase demand and boost asset values, including real estate, the Administration continues to urge Congress to pass the President's growth package. The program would:

- o reduce the capital gains tax rate;
- o enhance personal savings through an expanded Individual Retirement Account (IRA) and Family Savings Account;
- o make the Research and Experimentation (R&E) tax credit permanent;
- o increase federal investment in science, technology and infrastructure;
- o reform the education system; and
- o keep the discipline of the budget agreement.

D. Nominees for Regulatory Positions

Three out of four bank and thrift regulatory agencies are without a Senate-confirmed head. Presidential nominees for regulatory positions awaiting Senate confirmation, include two members and the Chairman of the Federal Reserve Board, as well as the Comptroller of the Currency and the Chairman of the FDIC.

The Administration urges Congress to eliminate uncertainty about the direction of monetary policy and regulatory leadership by acting quickly to confirm the President's

nominees. Congress' preoccupation with second guessing regulators has continued to exacerbate the credit crunch.

E. Bankruptcy Reform

Some in Congress and the American Bankers Association point out that recent court decisions, a developing social acceptability of bankruptcy, and aggressive tactics by borrowers have weakened bankruptcy practices and thus, reduced the willingness of bankers to lend.

The Justice Department has recently undertaken a comprehensive review of the bankruptcy law and practice. The President has asked the Acting Attorney General to complete this review, analyze pending legislative initiatives, and, together with the Secretary of the Treasury, evaluate their impact on credit extensions by financial institutions.

This report will be made to the Economic Policy Council in January 1992.

The Economic Policy Council and the regulatory agencies will continue to review the credit crunch and related issues.

KEY EVENTS IN THE DEVELOPMENT OF REGULATORY
INITIATIVES IN CONJUNCTION WITH THE ADMINISTRATION'S
ECONOMIC RECOVERY PROGRAM

Date	Event
Aug. 1989	FIRREA enacted and signed into law by President George Bush.
Jan. 1990	In a speech to the National Association of Home Builders Board of Directors in Atlanta, Department of Housing and Urban Development Secretary Jack Kemp referred to the credit crunch as a "regulatory reign of terror."
Feb. 1990	Comptroller of the Currency Robert Clarke issued an advisory letter warning about deficiencies and negative trends in national bank real estate lending involving underwriting standards, structuring and documentation of appraisals, and risk identification. Although the letter stated that the advisory was not intended to discourage sound real estate lending, it was seen by some as having contributed to the "credit crunch."
July 1990	In testimony before the Senate Banking Committee, Federal Reserve Board Chairman Alan Greenspan acknowledged that there was a credit tightening and expressed concern that bankers may have stepped over the line in tightening lending standards.
Summer 1990	Secretary of Commerce Robert Mosbacher went on a 30-city series of conferences with borrowers who had unsuccessfully sought credit. The overall message that emerged from the meetings was that credit was tightening, and worthy borrowers could not get credit.
Sept. 1990	Treasury held roundtable meetings with financial institution representatives that further explored the credit crunch issue.
Nov. 1990	During a meeting with Treasury Secretary Nicholas Brady, President Bush directed Secretary Brady to take the lead in exploring the credit crunch issue.
Jan. 1991	Secretary Brady assigned Treasury staff to a credit crunch project. The group was to answer the question--"Is there a credit crunch, and if there is, is overly burdensome regulation contributing to it?"

Date	Event
Jan. 1991	In his State of the Union message, President Bush said that the credit crunch is a serious impediment to an economic recovery. In calling for bank reform legislation, the President said: "I do think there has been too much pessimism. Sound banks should be making more sound loans now, and interest rates should be lower, now."
Jan. - Feb. 1991	Secretary Brady held a series of meetings with the bank and thrift regulators. These meetings were coordinated by designated Treasury officials and resulted in a list of the principal issues to possibly ease the credit crunch.
Mar. 1991	The four banking regulatory agencies issued a joint policy statement addressing those areas that emerged from their earlier meetings with Treasury.
Apr. 1991	At a Dallas meeting of Treasury officials and bank examiners from the four regulatory agencies, there was further discussion of the credit crunch among the regulators and Treasury. During the meeting, the regulators agreed that more should be done to ensure consistent valuation of real estate loans.
Apr. 1991	An interagency working group began to study commercial real estate valuation issues. This work eventually resulted in the November 7 Joint Policy Statement.
June 1991	Seventy Members of Congress signed a letter to FDIC Chairman William Seidman urging him to support President Bush's credit crunch efforts.
July 1991	OCC issued a new circular that allowed for troubled debt restructuring and continued lending to industries in which a bank may already have a concentration. This was issued in response to bankers' requests for the power to do what they were already allowed to do under existing accounting standards.
Sept. 1991	Town meetings, usually hosted by Members of Congress and including representatives of lenders, borrowers, and regulators, began being held around the country.
Oct. 1991	Secretary Brady issued a press release announcing new steps in the administration's ongoing efforts to address the credit crunch. The press release discussed, among other things, the enhanced examination appeals process, the certification process, the random audit program, and the National Examiners' Conference.

Date	Event
Nov. 1991	The bank regulatory agencies issued their joint policy statement primarily addressing asset valuation. The press release issued with the statement also mentioned the National Examiners Conference and the random audit program.
Dec. 1991	The National Examiners' Conference was held to discuss the joint interagency statements among senior bank and thrift regulatory agency officials.
Jan. - Aug. 1992	Town meetings continued and the regulators worked to implement the initiatives discussed in the joint policy statements. The regulators also continued to report to the Treasury on several of the programs.
Sept. 1992	Secretary Brady sent a memo to OTS Director Timothy Ryan and Acting Comptroller of the Currency Stephen Steinbrink requesting that they hold meetings with bankers and borrowers across the country to hear specific allegations about regulatory policy and examiner behavior. The memo also asked OTS and OCC to invite the Federal Reserve and FDIC to participate in the meetings.

PERCEPTIONS OF THE EFFECT OF CREDIT CRUNCH ISSUES
AND ANTICIPATED BEHAVIOR OF INDUSTRY PLAYERS

Although anecdotal information has been widely reported about the credit crunch and its causes and possible effects on lenders and borrowers, we did not find quantitative information compiled or reported specifically addressing the impact of the credit crunch on affected segments of the financial institutions industry. However, we did review regulators' accounts of nationwide town meetings and informal hearings where lenders and borrowers could voice their concerns about the credit crunch to congressional and regulatory officials. We used this information to gain a perspective on credit availability issues of concern to lenders and borrowers as well as to gain insight on how regulators were communicating and clarifying their comprehensive policy guidance to the financial institutions community. Excerpts of these accounts containing participants' views expressed at these gatherings are in table VI.1.

Furthermore, in the absence of quantifiable data, we talked with regulatory officials or obtained their written responses on what effect they believed the interagency guidance was likely to have on examiners, lenders, and borrowers. The agency officials' views are shown in table VI.2, broken down by the two joint interagency policy statement provisions and the Treasury-advocated initiatives as they are thought to impact examiners, lenders, and borrowers.

Table VI.1: Perceived Impact of the Credit Crunch by Participants at Town Meetings/Hearings, July 1991 Through April 1992

Participant	OCC	OTS	FDIC	FRB
Lender: Bank/Thrift	<p>Bankers reassured borrowers that money was available, but credit standards were tougher and more documentation would be expected.</p> <p>In response to a developer who made three emotional requests for money to continue construction, a banker told him that he saw people like him daily. They came into the bank with a speculative real estate development project, no pre-rentals, no equity, and wanted "walking around money." The banker told him that such loans were not going to be made, but that a good plan with equity and a good chance of success would be considered by his bank.</p> <p>A bank president said that his bank did not have funds available to lend without liquidating investments or buying funds, so the bank was lending carefully. Regulators were not all of the problem.</p> <p>This bank president said that his bank had lots of liquidity and was willing to lend but that credit was not available as it was in the past. He said that OCC was not being arbitrary and was working with his bank on real estate loans.</p>	<p>A banker said that he thought the regulators used a more middle-of-the-road approach in his most recent examination, compared to a very "by-the-book," strict approach in his previous examination.</p> <p>One banker said that the loans-to-one-borrower rule limited his institution's ability to extend construction loans.</p> <p>Some bankers stated that risk-based capital rules cause their institutions to steer clear of construction lending, even for residential properties.</p> <p>Bankers said that lending was limited because of the uncertainty of how far real estate values would fall.</p> <p>Loan officers are more worried about what the examiners are going to think than they are about what they can afford to do for the customer. Some bankers agreed, saying that they hoped they had not passed up some loans that they should have made.</p> <p>A banker commented that over the past few years, there had been a change for the worse in the attitude of examiners.</p> <p>Bankers did not solely blame regulators. A few registered their frustration with bankruptcy laws, suggesting that they would like to see the return of debtor's prisons.</p>	<p>A banker said that banks were making loans for equipment, plant expansion, and plant acquisition, but speculative projects generally were not obtaining financing.</p> <p>A banker commented that the focus on sophisticated documentation and numbers had taken away "character loans" in the banking industry.</p> <p>One banker said he believed the credit crunch was real, and he attributed it to fear. He said that society functions primarily on risk taking, and banking was about risk taking. The hope for reward and the fear of punishment were both strong motivators. In banking, these two motivators needed to be balanced against each other for the system to function best. For the past 2 years, the fear of punishment for risk taking had far outweighed the hope for reward. The banker believed that bankers feared the regulators and that regulators were the punishers of risk takers, and they were doing so with a vengeance.</p> <p>According to a banker, customers are highly concerned about the future and do not want to take on more debt until they have more confidence; they are reducing their debts even when they could easily qualify to borrow more money.</p>	<p>According to a banker, although standards have been tightened in some cases (i.e., real estate development), bankers were willing to make loans to creditworthy borrowers.</p> <p>A participant believed that loan demand was down due in large part to the recession.</p> <p>According to a banker, many bankers were "copping out" on the pressures on them by blaming the regulators.</p>

Participant	OCC	OTS	FDIC	FRS
	<p>A banker said that regulators did not cause problems, they merely reacted. He said that although bankers and examiners disagreed sometimes, examiners were doing a good job. Thrifts and developers used to work together, but FIRREA changed that. He said that thrifts were competing with developers to get rid of property.</p>		<p>A banker said that while there was a perception that banks were withholding new lending to qualified customers, he did not believe this situation existed at healthy banks. However, he did acknowledge that for commercial borrowers, particularly in real estate, things were not good.</p> <p>According to some bankers, the days of lending with no borrower equity and without takeouts were over.</p>	
<p>Borrower: Real estate builder/Developer</p>				
	<p>Developers raised concerns about the banking bill. There was fear that the capital limitations and early intervention would make the problem worse. There was some comment that the administration should be doing more to solve the problem.</p> <p>A builder said that buyers were not buying for fear of losing their jobs. He said that unemployment was on the rise, and it was affecting the building industry. Lending had hit bottom as credit standards tightened. He believed that bankers were fearful of regulators.</p> <p>One developer believed regulators over-regulated and caused the problem. He said that new legislation and tax deductions in the real estate area were needed.</p> <p>A developer stated that thrifts he'd previously dealt with were all gone. The remaining thrifts did not work with borrowers; they foreclosed the minute past due status occurred. He said he had worked with some commercial banks and that legislation was needed to help the industry.</p>		<p>A realtor asserted that a significant factor contributing to the real estate decline during this recession was the new definition of nonperforming loans. The over-built real estate market was forcing buildings into distress sales or foreclosures as their balloon notes came due, and banks would not offer refinancing.</p> <p>A developer said that FDIC and RTC were contributing to the "downfall" in the economy by disposing of properties right now. He believed that holding off would be better because the agencies would obtain prices closer to book value.</p>	<p>Some developers believed that capital requirements were causing banks to curtail lending.</p> <p>Developers and realtors stressed to regulators the need to continue to inform bankers and examiners about the March 1 guidance and that it allowed banks to work with troubled borrowers.</p>

Participant	OCC	OTS	FDIC	FRB
	<p>A builder discussed problems in buying real estate from RTC. RTC sales had caused a supply problem and had driven down appraisals.</p> <p>A summary of developer's remarks: No credit was available for land acquisition for housing. . .Sins of commercial real estate had moved to all real estate lending. . .4-6 months inventory, no building going on except for individuals. . . Decline in value due to oversupply. . .Lenders were telling developers that they had to reduce their real estate holdings.</p>		<p>A contractor said that part of today's credit crunch stemmed from the flush of overly optimistic growth projections and purely speculative commercial office development during the 1980s. "It would be convenient, but irresponsible, to solely blame financial institutions or their regulators for current problems. To relax capital, asset, and other rules too much could risk a larger financial crisis and a longer, deeper, recession. Some of the policies adopted by Congress to cure the excesses of the 1980s are also believed to be part of the problem."</p> <p>A developer noted that "over-building and creditworthiness should be taken seriously. However, such considerations cannot and should not inhibit appropriate, even-handed, and fair oversight of the entire lending/borrowing process. Excesses of the past must not be an excuse for shackling further real estate development."</p>	

Participant	OCC	OTS	FDIC	FRB
Borrower: Business representative				
	<p>The owner of an auto parts business said he had 5 years of demonstrated performance, but his cash flow had been reduced and he had to sell at a distress price. His bank told him that OCC required the bank to get rid of this (his) loan.</p> <p>The owner of a shipping business said that major banks told him that regulators would not let them make loans. On the other hand, he said that small banks told him that they did not have the expertise to lend in some specialized areas, such as his business.</p> <p>Business people were concerned that the real estate construction woes had taken the capital from the banks and there would not be any loans for them.</p>		<p>An auto dealer said that while the regulators did not grant loans, they did control the loan loss amount that the bank was required to set aside in case of a loan foreclosure. This limited bank book loans to those considered to be the "cream of the crop."</p>	
Borrower: Organization representative				
	<p>One realtor complained that new home buyers could not qualify for loans. The Federal Housing Administration had increased down payments and mortgage premiums, which had resulted in many purchasers having their loans foreclosed upon.</p>		<p>According to a representative of the Small Business Administration, plenty of money was available, and the organization had increased its lending volume over the past year.</p>	<p>A representative of a state bankers association claimed that the role of the regulator was essentially to guard against excess (both too much and too little credit) and to move bankers toward the moderate center. Regulators were not able to carry out their roles because of congressional demands placed upon them--"Current regulator strictness and inconsistency reflect congressional mixed signals."</p>

Participant	OCC	OTS	FDIC	FRB
Borrower: Miscellaneous				
	<p>Many claims were made that banks simply did not make loans on any terms if they involved real estate.</p> <p>Borrowers expressed dissatisfaction in dealing with either a thrift run by the government or a failed bank or thrift.</p> <p>Several members of the audience raised the contentious issue concerning the legal lending limit rule imposed on the thrifts.</p>		<p>Some borrowers appeared to be complaining more about the inability to roll over existing loans than about the ability to finance new projects.</p> <p>Commercial borrowers indicated that existing fears of losing credit lines had constrained their plans for growth.</p>	
Regulatory representative				
	<p>In response to a developer who said that the March initiative had not made any difference to the bankers, a representative stated that banks were now able to recognize income earlier than before on loans they had partially charged off.</p> <p>One regulator noted that "meetings generate a lot of discussion but, as usual, no real solutions.</p>	<p>In response to a banker's complaint that examiners were now asking for cash flows and occupancy rates on commercial property when they never used to, an OCC representative said that in good times, examiners were not as likely to pay as much attention to those numbers as they were in bad times.</p> <p>In response to a banker's complaint about the subjectivity involved in classifying assets, an OTS representative replied, "Classification <u>is</u> subjective. No one has been able to convert it to a computer program. That is why examiners rely heavily on management to evaluate a borrower's creditworthiness." He went on to explain that examiners did not have access to the borrower the way the institution did, and in such an environment their tendency was to be conservative.</p>		<p>A regulator recognized that the state had experienced rapid growth during the 1980s and that, as far back as the mid-eighties, they had cautioned banks about the overheated economy.</p> <p>One regulatory representative asserted that while regulators would not ignore problem credits, unsound credit practices, or overstated estimates of capital adequacy, they also recognized that overly stringent regulation can have harmful effects. They did not want bankers to make changes in their credit decisions based upon fear of "unwarranted" criticism by bank regulators. The representative informed participants that a year ago regulators met with American Bankers Association officials to explain their concerns about loan quality and to express their belief that banks should continue to make sound loans to creditworthy borrowers.</p>

Participant	OCC	OTS	FDIC	FRB
		<p>An FDIC representative tried to simplify the appeals process on disputable classifications by asking bankers to inform them of specific loans that examiners had criticized, which they believed were still good loans.</p>		<p>A regulatory official said that regulators have three tasks, which include that they ensure that (1) banks adopt and adhere to sound credit principals, (2) the books accurately reflect the value of assets and liabilities, and (3) management systems are in place to track bank activities and anticipate and adjust to changing market conditions. These tasks do not mean that the regulators cannot cooperate with banks to solve their problems. However, regulators must be ready to close banks that cannot survive in a competitive market--to do otherwise would lead to an inefficient banking system. The regulator reminded participants of regulatory policy that any bank may request a formal review of any major decision reached as part of the supervisory (appeals) process.</p>
State representative				
				<p>A Banking Commissioner said that, in fairness to regulators, Congress had given conflicting signals to the agencies (too tough, too easy, etc.) while actively discussing whether to restructure the agencies out of their responsibilities. (While Members of Congress acknowledged this situation, they expressed frustration over small/medium businesses being unable to obtain credit.)</p>
Academic representative				
			<p>One academic said he believed there was no shortage of monies for commercial real estate properties and that a correction in property values, rather than a credit crunch, existed.</p>	

Participant	OCC	OTS	FDIC	FRB
Member of Congress				
				Several Members of Congress expressed the opinion that persistent financial pressures on businesses was a concern and that there was a widespread perception that examiner behavior had not changed materially.

Note: These gatherings were generally hosted by Members of Congress with participation by representatives from most (if not all) of the regulatory agencies. The gatherings were provided for lenders and borrowers to air their concerns about credit availability issues.

Table VI.2: Regulators' Perceptions of the Anticipated Impact of Policy Guidance on Examiners, Lenders, and Borrowers

Examiners	Lenders	Borrowers
Joint Statement on Supervisory Policies, March 1, 1991		
Disclosure of nonaccrual loans to the public		
<p>Should not have much impact on examiners because it is primarily intended for use of stock market analysts.</p>	<p>Could improve a bank analyst's perception of nonaccrual loans by providing information on the return provided to a bank by these assets.</p> <p>Users of the financial statements should have a better understanding of the quality of nonaccrual assets. This could put the lender in a more favorable financial light.</p>	<p>Could encourage institutions to work with borrowers experiencing temporary financial difficulties, consistent with safe and sound principles. The enhanced disclosures could provide a more detailed analysis of nonaccrual loans.</p> <p>Improved perception of the nature of these loans could make banks more willing to work with their troubled borrowers.</p>
Disclosure of HLTs		
	<p>Guidance could potentially decrease the volume of loans reported as HLTs as well as decrease the number of potential borrowers that were previously designated HLTs.</p>	<p>Guidance could potentially remove the stigma of HLT designation from individual borrowers or potential borrowers who did not share the characteristics commonly attributed to highly leveraged entities, thereby making it easier for them to maintain or obtain credit.</p> <p>Sound borrowers who are also highly leveraged may be able to more readily obtain credit.</p> <p>Moderate impact on certain industries that were defined as highly leveraged.</p>
Continued lending to sound borrowers by undercapitalized institutions		
	<p>Any misunderstandings of perceived regulatory actions on lending activities by institutions should be reduced.</p> <p>Potentially reduces fear of criticism if an undercapitalized bank makes new loans to sound borrowers.</p>	<p>Loan growth to sound borrowers may be encouraged.</p> <p>Potentially improves environment for borrowers dealing with undercapitalized banks and could increase credit availability.</p>
Continued lending to sound borrowers in an industry in which the institution already has a concentration		
<p>Statement reaffirms and reinforces existing policy.</p>	<p>Potentially reduces fear of criticism if a bank makes a loan to a sound borrower within an existing concentration.</p> <p>To the extent that lenders were not lending because of concentrations, this policy clarified examiners' intent.</p>	<p>Potentially improves environment for borrowers to obtain credit.</p>

Examiners	Lenders	Borrowers
Recognition of income for certain nonperforming loans		
	<p>Guidance makes it clear that income can be recognized on a cash basis on nonaccrual loans when the remaining recorded balances of the loans are fully collectible. This may reduce unnecessary pressures on institutions that hamper them from working with borrowers experiencing temporary financial difficulties.</p> <p>Permits cash basis income recognition on partially charged-off loans, thereby providing an incentive for banks to work with troubled borrowers.</p>	<p>Troubled borrowers may benefit by banks who would be more willing to work with them.</p>
Valuation of real estate loans		
<p>Should enhance the consistency of examiner evaluations of real estate loans. All groups (examiners, lenders, and borrowers) should have a better understanding of the agencies' practices regarding these evaluations.</p>	<p>Should enhance a lender's ability to assess all of the factors involved in evaluating the risks associated with real estate lending.</p> <p>Potentially improves the environment for bank lending.</p>	<p>Should enhance a borrower's ability to better understand factors involved in evaluating risks associated with real estate lending.</p> <p>Could improve environment for potential borrowers to obtain credit.</p>
Treatment of multiple loans to one borrower		
	<p>Policy emphasizes traditional procedures whereby the borrower's ability to repay, whether one loan or multiple loans, is determined on a loan-by-loan review. This may allow lenders the flexibility to work with troubled borrowers who have multiple loans without a concern that the total indebtedness to the borrowers would automatically be placed in a nonaccrual status if one loan is already considered nonaccrual.</p> <p>Could reduce nonaccrual totals for those lenders that combined all related loans together when one loan was nonaccrual.</p>	
Acquisition of nonaccrual assets		
<p>The American Institute of Certified Public Accountants issued Practice Bulletin No. 6 on nonaccrual assets acquired at a discount, but this guidance was not addressed in the Call Report instructions and glossary on nonaccrual status--guidance did not explicitly address acquired nonaccrual loans. Effort was directed at clarifying Call Report guidance in this area. No significant impact is expected as it is a technical amendment to conform regulatory reports to GAAP.</p>	<p>Clarifies issue for lenders/acquirers. May make institutions more willing to acquire nonaccrual assets of failed banks or thrifts.</p>	

Examiners	Lenders	Borrowers
Treatment of formally restructured debt		
<p>Call Report instructions were not clear and GAAP standards are silent on whether a formal restructuring of a nonaccrual loan can be used to restore a loan to accrual status. In 1990, OCC issued accounting guidance that required some period of payment performance before a restructured loan could be restored to accrual status. Although no interagency position had been established, some institutions misunderstood OCC's accounting guidance as applying to institutions not supervised by OCC. The March initiative clarifies the appropriate regulatory reporting treatment for restructured loans. This clarification enhances consistency and provides for coherent reporting and examination practices among the agencies.</p>	<p>Promotes the use of troubled debt restructuring accounting as an effective way to work out of a problem loan situation.</p> <p>May make lenders more willing to restructure loans to borrowers with reduced cash flow.</p>	<p>May make it easier for borrowers to restructure loans.</p>
Accrual treatment of substandard loans for which management attributes some portion of the allowance for loan losses		
<p>No direct impact expected. Policy reiterates existing practices that it is the institutions' responsibility to determine the level of their loan loss reserves. Management is expected to consider all relevant events that may result in a borrower's inability to repay the debt. This would necessarily include a review of all classified loans for potential loss.</p>	<p>Should encourage lenders to review their loan portfolio and make the appropriate increases to the allowance for loan losses on the basis of their most reliable information, including estimates of anticipated loss for substandard loans, without concerns that this estimation would require the loan to be placed on a nonaccrual status.</p> <p>May reduce nonaccrual totals.</p>	
BHC preferred stock		
	<p>BHCs will be provided with somewhat expanded sources of Tier 1 capital. This may result in increases in the amount of noncumulative perpetual preferred stock issued by BHCs, although noncumulative preferred stock is not a common instrument for U.S. banking organizations. To the extent that BHCs downstream proceeds from these offerings to their subsidiary banks, these banks may have larger capital levels and consequently larger lending limits.</p>	

Examiners	Lenders	Borrowers
Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans, November 7, 1991		
<p>This policy serves as an expansion of the March 1 statement in that it provides additional guidance for examiners and financial institutions concerning lending issues and credit availability. Its purpose is to eliminate any significant differences in the agencies' real estate-related examination policies and to clarify those policies for bankers and examiners so there would be no misunderstandings about the rules. The guidance clarifies existing policy but does not propose any new approaches to examination techniques.</p> <p>Reaffirms and reinforces existing policy and ensures that all of the agencies are consistent.</p>	<p>Although examination policies were already communicated to examiners, bankers, and the general public, depository institutions were made aware of the criteria for identifying and classifying troubled commercial real estate loans. Being assisted by comprehensive guidance on the regulatory viewpoint, lenders should be able to work with troubled borrowers and extend new credits within the parameters of safe and sound banking guidelines.</p> <p>Could have a moderate impact upon lenders who did not fully understand examiner review procedures.</p>	<p>By eliminating misunderstanding and promoting consistency among the agencies, the policy potentially improves the environment for borrowers to obtain credit and for banks to work with troubled borrowers.</p>
Treasury-Advocated Initiatives to Ensure Implementation of Interagency Policies, October 8, 1991		
Review of supervisory findings (enhanced examination appeals process)		
<p>Examiners are expected to continue to adequately support their findings and effectively communicate them to management so that no appeals will be necessary.</p>	<p>Documentation of a practice previously followed on an informal basis may provide banks with a greater feeling of confidence that they will receive a fair and accurate assessment in examinations. Existence of this method for resolving differences may cause bankers to be somewhat more accommodating to sound, creditworthy borrowers.</p> <p>Helps to ensure that bankers understand their rights to appeal examination findings that they believe to be inconsistent with agency policies.</p>	
National Examiners' Conference		
<p>Served to clarify and achieve greater uniformity among all examiners.</p> <p>Should gain a better understanding of agency policies.</p> <p>Reemphasized existing policies.</p>	<p>To the extent that the meeting assured conformity with policies and procedures, lenders should feel more confident regarding the consistent application of these policies during the examination process.</p>	<p>This may allow institutions to facilitate prudent and safe lending to creditworthy borrowers.</p>
Random audit program		
<p>The addition of this process to the existing review program should promote the consistent application of examination policies and practices. As such, the review procedures serve to ensure that policies and procedures related to the examinations of banks are understood and used by examiners correctly.</p> <p>Examiners will be required to provide more detailed workpapers on their analysis.</p>	<p>Lenders should benefit through the consistent application of these procedures to ensure that the examination and the valuation of real estate represent a fair and accurate review of all pertinent factors.</p>	<p>Borrowers should benefit through the consistent application of these procedures to ensure that the examination and the valuation of real estate represent a fair and accurate review of all pertinent factors.</p>

Note: Perspectives shown include regulatory officials' views on specific provisions of the two comprehensive policy initiatives and Treasury-advocated processes for effectively implementing them, including the National Examiners' Conference, random audit program, and enhanced appeals process.

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