

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

DATE: June 2010 **LETTER NO.:** 10-CU-07

TO: Federally Insured Credit Unions

SUBJ: Commercial Real Estate Loan Workouts

ENCL: Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts

Dear Board of Directors:

In October 2009, the Federal Financial Institutions Examination Council (FFIEC)¹ released a policy statement supporting prudent commercial real estate (CRE) loan workouts. This policy statement provides beneficial guidance for examiners, and for credit unions that are working with member business loan borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. NCUA recognizes that these are challenging economic times and encourages credit unions to work constructively with member-borrowers to implement prudent member business loan workouts that are in the best interest of both the credit union and the member-borrower.

The policy statement addresses NCUA's position and expectations regarding credit unions' risk management practices for member business loan workout programs and individual member business loan workout arrangements. Specifically:

- Risk management practices for renewing and restructuring member business loans should be appropriate for the complexity and nature of the lending activity and consistent with safe and sound lending practices and regulatory requirements;
- Prudent loan workout arrangements should improve the prospects for repayment of principal and interest, and should be supported by a

¹ The FFIEC consists of the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the State Liaison Committee.

comprehensive analysis of the member-borrower's willingness and ability to repay the loan, an evaluation of support provided by guarantors, and a current assessment of the value of the underlying collateral;

- Workout arrangements should be reported in accordance with NCUA 5300 Call Report instructions; and,
- Loan loss estimates should comply with:
 - ✓ Generally accepted accounting principles (GAAP);
 - ✓ *Interpretative Ruling and Policy Statement ("IRPS") 02-3 Allowance for Loan and Lease Losses Methodologies and Documentation for Federally Insured Credit Unions (May 2002); and*
 - ✓ *Accounting Bulletin 06-1 (December 2006) Interagency Advisory addressing the ALLL that reiterates key concepts and requirements including GAAP and existing ALLL supervisory guidance.*

The policy statement includes examples of CRE loan workouts. The examples, provided for illustrative purposes only, reflect examiners' analytical processes for evaluating accounting and reporting treatment for restructured loans. The policy statement also includes sources of relevant supervisory and accounting guidance.

If you have questions, please contact your NCUA Regional Office or State Supervisory Authority.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure