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

Financial Institution Letter
FIL-4-2006
January 13, 2006

COMMERCIAL REAL ESTATE LENDING

Proposed Interagency Guidance

Summary: The federal bank and thrift regulatory agencies are seeking comment on the attached proposed interagency guidance relating to sound risk-management practices for concentrations in commercial real estate (CRE) lending. Comments are due by March 14, 2006.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Lending Officer
Compliance Officer

Related Topics:
Real Estate Lending Standards
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Attachment:
Proposed Interagency Guidance

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Highlights:

- The Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision have proposed the attached guidance addressing sound risk-management practices for concentrations in CRE lending.

- Concentrations of CRE loans may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the general commercial real estate market.

- The proposed guidance reinforces existing guidelines for real estate lending and provides criteria for identifying institutions with CRE loan concentrations that may warrant greater supervisory scrutiny. Such institutions should have robust risk-management systems in place and capital levels higher than the regulatory minimums and appropriate to the risk associated with these concentrations.

- The FDIC encourages institutions to review the attached *Federal Register* notice and to comment on the scope of the definition of CRE and on the appropriateness of the thresholds for determining elevated concentration risk.