BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 13-17

October 24, 2013

TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK AND TO EACH DOMESTIC FINANCIAL INSTITUTION SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: Interagency Supervisory Guidance Addressing Certain Issues Related to Troubled Debt Restructurings

Applicability to Community Banking Organizations: This guidance applies to all financial institutions, including those with $10 billion or less in consolidated assets.

The Federal Reserve, together with the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency, (the agencies) has issued the attached guidance, which addresses certain issues related to the accounting treatment, and regulatory credit risk grade or classification of commercial and residential real estate loans that have undergone troubled debt restructurings (TDRs).[1] This document reiterates key aspects of previously issued guidance and also discusses the definition of collateral-dependent loans and the circumstances under which a charge-off is required for TDRs. The guidance for these two concepts is included to provide further clarification and ensure consistent treatment.

The agencies encourage financial institutions to work constructively with borrowers and view prudent modifications as positive actions when they mitigate credit risk. The agencies generally will not criticize financial institutions for engaging in prudent workout arrangements, even if the modified loans result in adverse credit classifications or constitute TDRs.

Reserve Banks are asked to distribute this letter to supervised financial institutions in their districts, as well as to their own supervisory and examination staff. Questions regarding the attached guidance should be addressed to Anita Feemster, Senior Accounting Policy Analyst, Accounting Policy, at (202) 475-6674, or Carmen Holly, Supervisory Policy Analyst, Credit,

[1] According to U.S. generally accepted accounting principles (GAAP), a restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

Market, and Liquidity Risk Policy, at (202) 973-6122. In addition, questions may be sent via the Board's public website.[2]

Michael S. Gibson
Director

Attachment:

- *Interagency Supervisory Guidance Addressing Certain Issues Related to Troubled Debt Restructurings*

Cross references to:

- SR letter 09-7, "Policy Statement on Prudent Commercial Real Estate Loan Workouts"
- SR letter 06-17, "Interagency Policy Statement on the Allowance for Loan and Lease Losses"[3]

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[2] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

[3] In the attachment to SR-06-17 entitled, "Questions and Answers on Accounting for Loan and Lease Losses," the discussion of the treatment of selling costs for collateral dependent loan in the answer to Question 10 should consider the guidance in this letter's attachment. More specifically, see the section entitled, "Classification and Charge-Off Treatment: Impaired Loan that is Collateral Dependent," and footnote #19 of this letter's attachment for guidance on selling costs.