New fed guide on commercial real estate loan mods

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Banks must accurately identify their potential losses when modifying troubled commercial real estate loans under federal guidelines issued Friday.

Regulators have warned that rising losses on commercial real estate loans pose risks for U.S. banks, with small and mid-size banks especially vulnerable. Nearly $500 billion in commercial real estate loans are expected to come due annually over the next few years.

Agencies including the Federal Deposit Insurance Corp ., Federal Reserve and Office of Thrift Supervision released the new guidelines for banks, which emphasize that modifying loans in a prudent fashion is often in the best interest of both the bank and the creditworthy commercial borrower.

Under the guidelines, loans to creditworthy borrowers that have been restructured and are current won't be classified as high risk by regulators solely because the collateral backing them has declined to an amount less than the loan balance.

Banks that put prudent modifications into effect after making a full review of the borrower's financial condition "will not be subject to criticism (by regulators) for engaging in these efforts," even if the reworked loans end up being classified as high risk, the agencies said. They said their bank examiners will take "a balanced approach" in evaluating banks' risk management practices in this area.

Bank failures for the year hit 106 last week, the most since 1992 at the height of the savings-and-loan crisis, as institutions nationwide have succumbed under the weight of soured real estate loans and the recession.

The failures have cost the FDIC's fund that insures deposits an estimated $25 billion so far this year and are expected to cost around $100 billion through 2013. To replenish the fund, which has fallen into the red, the agency wants the roughly 8,100 insured banks and savings institutions to pay in advance $45 billion in premiums that would have been due over the next three years.

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