



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

SR 12-10

CA 12-9

June 28, 2012

**TO THE OFFICERS IN CHARGE OF SUPERVISION AND APPROPRIATE
SUPERVISORY AND EXAMINATION STAFF AT THE FEDERAL RESERVE
BANKS AND FINANCIAL INSTITUTIONS SUPERVISED BY THE FEDERAL
RESERVE**

**SUBJECT: Questions and Answers for Federal Reserve-Regulated Institutions Related to
the Management of Other Real Estate Owned (OREO)**

Applicability to Community Banking Organizations: This guidance applies to all institutions regulated by the Federal Reserve with OREO, including those with \$10 billion or less in consolidated assets.

This letter conveys various questions and answers regarding the management of OREO by institutions regulated by the Federal Reserve. During the recent financial crisis, financial institutions have experienced a rise in OREO caused by general weaknesses in the housing market, including increases in delinquencies and defaults, house price declines, and weaknesses in the structure of a number of commercial real estate financings. The attached *Questions and Answers for Federal Reserve-Regulated Institutions Related to the Management of Other Real Estate Owned (OREO) Assets* document (Q&A document) is intended to clarify existing policies and promote prudent practices for the management of an institution's OREO assets, addressing both safety-and-soundness policies and consumer compliance issues.

The Federal Reserve's longstanding guidance for the management and financial reporting of OREO assets is set forth in Section 2200 of the *Commercial Bank Examination Manual* and the instructions to regulatory reporting forms for banks and bank holding companies.¹ However,

¹ See, for example, *Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)* and *Instructions for Preparation of Consolidated Financial Statements for Bank Holding Companies*

given the increase in OREO on financial institutions' balance sheets, the Federal Reserve is issuing the attached Q&A document to reiterate this longstanding guidance and to highlight key concepts on the financial reporting, loss recognition, and management of OREO assets. Topics covered in the Q&A document include:

- Transferring an Asset to OREO
- Reporting Treatment and Classification
- Appraisal Concepts
- Ongoing Property Management
- Operational and Legal Issues
- Sale and Transfer of OREO

Reserve Banks are asked to distribute this letter and the attached Q&A document to state member banks, bank holding companies, and savings and loan holding companies, as well as to supervisory and examination staff. Questions regarding this letter should be directed to the following individuals:

- Division of Banking Supervision and Regulation: Mary Aiken, Manager, at (202) 452-4534; Donald Gabbai, Senior Supervisory Financial Analyst, at (202) 452-3358; or Carmen Holly, Supervisory Financial Analyst, at (202) 973-6122, in Credit, Market, and Liquidity Risk Policy; and Matthew Kincaid, Senior Accounting Policy Analyst, at (202) 452-2028, in Accounting Policy; or
- Division of Consumer and Community Affairs: Timothy Robertson, Senior Supervisory Consumer Financial Services Analyst, RB Oversight/CBO Supervision, at (202) 452-2565.

In addition, institutions may send questions via the Board's public website.²

Michael S. Gibson
Director
Division of Banking Supervision
and Regulation

Sandra F. Braunstein
Director
Division of Consumer
and Community Affairs

(FR Y-9C). Refer to the Federal Reserve's public website under the tab "Reporting Forms" for reporting instructions. <http://www.federalreserve.gov/reportforms/default.cfm>

² See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.

Attachment:

- *Questions and Answers for Federal Reserve-Regulated Institutions Related to the Management of Other Real Estate Owned (OREO) Assets*

Cross-references to:

- SR letter 12-5/CA letter 12-3, “Policy Statement on Rental of Residential Other Real Estate Owned (OREO) Properties
- SR letter 10-16, “Interagency Appraisal and Evaluation Guidelines”
- CA letter 09-5, “Information and Examination Procedures for the “Protecting Tenants at Foreclosure Act of 2009”
- CA letter 05-3, “Servicemembers Civil Relief Act of 2003”
- SR letter 03-5, “Amended Interagency Guidance on the Internal Audit Function and its Outsourcing”
- SR letter 00-17, “Guidance on the Risk Management of Outsourced Technology Service”
- SR letter 95-16, “Real Estate Appraisal Requirements for Other Real Estate Owned (OREO)