

Press Releases

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OTS 06-055 - OTS Issues Guidance on Concentration in Commercial Real Estate Lending

Office of Thrift Supervision

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For further information

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OTS Issues Guidance on Concentrations in Commercial Real Estate Lending

WASHINGTON, D.C. -- The Office of Thrift Supervision (OTS) issued guidance today addressing concentrations of commercial real estate (CRE) loans by savings associations.

The guidance notes that concentrations of credit can add a dimension of risk that compounds other risks inherent in individual loans. The guidance reminds thrifts that strong risk management practices, prudent underwriting standards and appropriate capital levels are essential elements of a sound lending program, particularly for institutions maintaining CRE lending concentrations.

In addition to promoting sound risk management practices that enable institutions to pursue CRE lending in a safe and sound manner, the guidance reminds federal thrifts of the statutory limit of 400 percent of total capital on non-residential CRE lending. The guidance also highlights OTS's existing regulations and guidelines for real estate lending and loan portfolio management applicable to material changes in savings associations' lending activities. While the guidance does not establish specific CRE lending limits beyond the statutory limit, it notes that all thrifts actively engaged in CRE lending are responsible for assessing and managing their CRE concentration risk.

The OTS guidance identifies criteria triggering closer supervisory review based on the level and nature of CRE concentration risk at an institution. These include rapid growth in CRE lending, significant exposure to a specific type of CRE or geographic area, and supervisory concerns noted in prior examinations. Institutions with these criteria will be evaluated on whether their internal risk assessment and resulting risk management practices are commensurate with of the level and nature of their CRE lending activities and exposure.

The complete OTS guidance is attached.

Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices – <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-55a.pdf>

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The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at www.ots.treas.gov.