TEXAS DEPARTMENT OF BANKING	Bank Name/City	
	Charter #	
	Exam Date	
	Performed By	

14 - Loans and Leases

Assignment Overview

Loans comprise a major portion of most bank's assets and it is the asset category which ordinarily presents the greatest credit risk and potential loss exposure to banks. Examiners will evaluate the depth and scope of the bank's lending policies and credit administration procedures used to manage and control the loan portfolio. The evaluation also involves assessing the quality of the loan portfolio, which is among the most important aspects of the examination process.

For more detailed information, refer to Loans- Section 3.2 in the FDIC Risk Manual of Examination Policies. The related DOB Reference document applicable to this procedure provides links to useful regulations, guidance, and other issuances by various regulatory authorities.

Instructions

IMPORTANT! These procedures are designed to promote critical thinking. Your comments should include what you looked at, what you found, and your conclusions. It is your narrative that should tell the story for a reader who may not be familiar with this bank. The reader/reviewer should have a thorough understanding of what was performed and conclusions made.

Examiners must follow the instructions below and the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Commercial Examinations. If there is a conflict between these Instructions and the Examiner Bulletin, the Instructions prevail. Documentation should support weaknesses and criticisms. All examiners performing these procedures must be listed above in the “Prepared By” section.

Examiners are responsible for exercising sound judgment and utilizing reasonable investigative and analytical skills to arrive at an accurate assessment of the risk profile of this segment of the institution’s operations.

Evaluation Factors, Risk Guidance, and Comments

The focus of this procedure is to evaluate and address each of the Evaluation Factors. The Risk Guidance is provided to guide the examiner in developing a full and complete analysis for the Evaluation Factor. Documenting responses in the Risk Guidance section is not required. All conclusions should be documented in the Conclusion box for the Evaluation Factor. **Examiners will use their discretion to determine when to**

comment on a risk guidance item, considering what data or findings merit emphasis and which are secondary or of little importance. The examiner is expected to write a comment in the Conclusions box that is complete and supportive of findings, recommendations, and ratings. Do not write a comment to refer to the Risk Guidance.

The examiner may also address areas not included in the Risk Guidance section as it is not intended to be all inclusive.

Documentation

Supporting documentation should include the standard required documents identified in the Reference Documents section for each Evaluation Factor.

- Embedded documents should be named such that the reviewer will know the contents.
- If a required document will not be included for any reason, DO NOT DELETE the document title, instead, check either "Not Included" and add a reason why OR if a document is not applicable, check "N/A".
- Any other relevant documents may be added to fully support the examiner's findings. These documents may be embedded in the Reference Documents section.
- If a document needs to be reference in more than one Evaluation Factor comment, include a reference in the comment indicating the Evaluation Factor where the document can be found.

Documentation is to be sufficient to allow an audit trail of the examiner's thought process and all significant findings.

Violations of Regulations

Violations of regulations should be addressed under the appropriate Evaluation Factor. Indicate compliance using the drop-down box next to the regulation in the Compliance section. Address non-compliance in the Comment section.

Yes = In compliance

No = Not in compliance

***Not Applicable* =** Requirements in the regulation do not apply. For example, if there were no dividends paid, then the regulation related to approval of dividends would reflect "Not Applicable".

Nonconformance with Policy

Adherence with best practices identified in Department and federal financial regulatory policy/guidance should be addressed under the Comments for the appropriate Evaluation Factor. Indicate if the bank adheres to the best practices using the drop-down box next to the appropriate policy in the Adherence to Policy section. Comments regarding best practices should be summarized in the Summary Comments.

Summary Comments and Conclusions

The Summary Comments and Conclusions should be a high-level summary that highlights the examiner’s material findings and conclusions. A description of what to include in the Summary Comments and Conclusions is provided. These comments are not intended to be a report ready comment and will contain comments that may not be report worthy. Summary comments must support the Summary Rating.

The EIC will determine if the use of bullet points is appropriate for completing the Summary Comments and Conclusions. *The SEIC/EIC will have discretion in determining what is included in the Report of Examination.*

Navigating this Procedure

This procedure can be easily navigated by clicking on View from the Word menu bar then selecting Navigation Pane found in the Show section. All headings in this document will appear on the left side of the screen, for easy navigation through the document.

Performing alternate or expanded procedures not listed with these guidelines may be necessary to complete this risk analysis.

Summary of Findings

Loans and Leases - Summary Comment and Conclusions

Document conclusions regarding the level, trend, and severity of risk associated with the Loan Portfolio of the institution including classification levels, underwriting and credit administration standards, portfolio diversification, and Board and management oversight. Include recommendations for implementing best practices from policies and management responses to weaknesses. *The SEIC/EIC will determine what to include in the report of examination.*

Summary Rating: **Click Here to Select Rating**

Definitions for Summary Ratings –

CAMELS: 1-Strong; 2-Satisfactory; 3-Less than satisfactory; 4-Deficient; 5-Critically deficient

Ratings Matrix.xlsm

Violations

Prepare a comment for any violation cited. Include management's response.

Preliminary Review

Review the following items:

1. Examination Scope Memo
2. Prior Examination Asset Quality comments (as well as how deficiencies were corrected)
3. External / Internal audit findings concerning Asset Quality
4. Audit Scope
5. External / Internal Loan Review reports
6. Scope of Loan Review
7. Last State Examination's workpapers
8. Loan Policy (including officer lending limits)
9. Loan Committee(s) minutes
10. Loan Committee(s) Packet
11. Board / Loan Committee(s) Reports relating to:
    - Watch List
    - Past Dues and Nonaccruals
    - Concentrations
    - Exception Reporting
    - ACL
    - New and Renewed Loans
    - Insider Loans
    - LTV Exception

- Impairment Analysis
- TDR Reporting
- Repossessed Assets
- Overdrafts
- Other Real Estate Owned

Each day during the examination, obtain the daily overdraft report and the NSF report that shows what items will be paid or returned. Provide the reports to the examiners working loans.

Loans and Leases Analysis

EVALUATION FACTOR 1 **Review the last examination, most recent internal/external audits, and correspondence to identify any recommendations, violations, Matters Requiring Attention, or regulatory enforcement actions relating to the lending function. Determine Board and Management's efforts to comply with or correct noted deficiencies or concerns.**

Reference Documents	Conclusions – Evaluation Factor 1
Prior Examination Criticisms and/or Audit Exceptions ☐ N/A ☐ Not Included Copy of management response/corrective action ☐ N/A ☐ Not Included Other Supporting Documents:	

EVALUATION FACTOR 2 **Evaluate loan quality, the level, trends, distribution, and severity of past dues, nonaccrual and renegotiated troubled debt since the last exam. Determine if any loans, unfunded commitments, and other assets should be considered for classification.**

Risk Guidance

1. **Evaluate asset quality-related ratios and trends and changes in volume, composition, strategies, loan demand, markets, pricing, risk, lenders, and in the overall risk and quality of assets.**
    a. Pertinent ratios (adversely classified assets, past due/nonaccrual, Loan to Deposit, Georgia ratio, Losses, etc.)
    b. Concentrations of credit,
    c. Growth (rapid, stagnant, future)
    d. TDRs,
    e. Loan losses,
    f. Loan yields higher or lower than peer in different portfolio segments.

2. **If the bank has any repossessed assets, discuss with management the asset's value to determine that the asset is reported at the lower of BV or MV. Also consider the assets condition, age, and marketing efforts, if any, to determine appropriate classifications. Comment on deficiencies and note classifications.**

Reference Documents	Conclusions – Evaluation Factor 2
Classifications List/Page ☐ N/A ☐ Not Included Past due, nonaccrual, TDR Reports ☐ N/A ☐ Not Included Final lead sheet ☐ N/A ☐ Not Included	

Reference Documents	Conclusions – Evaluation Factor 2
New and Renewed Summary ☐ N/A ☐ Not Included List of Repossessed Assets ☐ N/A ☐ Not Included Other Supporting Documents:	

EVALUATION FACTOR 2.1
Evaluate loan underwriting and determine if it is adequate, effective, and appropriate for the bank's size, nature, and scope of its loan activities.

Risk Guidance

1. **Evaluate credit underwriting practices and determine if loans are underwritten to policy standards, appropriately documented, and financial analysis supports debt repayment. Consider the following:**
   a. Adherence to internal policies and guidelines.
   b. Compliance with laws and regulations.
   c. Documentation exceptions at inception of loans.

d. Utilization of loan covenants, prudency of covenants, and if compliance is tracked.

e. Use, accuracy, and completeness of loan memos.

f. Identification of primary, secondary, and tertiary sources or repayment.

g. The cash flow coverage for new loans.

h. LTVs:

    i. Is loan-to-value vs. loan-to-cost appropriately considered/calculated?

    ii. Instances of 100% financing?

        1. Tracking 100% financing?

i. Management's expertise/experience with new loan types.

j. The level, volume, and severity of policy exceptions granted at underwriting.

    i. Are the exceptions above historical norms?

    ii. Has the severity of exceptions changed from historic periods?

    iii. Are the exceptions identified on loan memos accurately tracked?

k. Overall quality and accuracy of loan memorandums.

l. Compliance with 12 CFR 364 Appendix A Section II.D (Non-member) /12 CFR 208 Appendix D-1 (Member)for underwriting standards.

m. Compliance with RE Lending Guidelines Appendix A of Part 365 (Non-member) / 12 CFR 208.51, Regulation H (Member).

2. Loan Worksheets for various types of loans are available as additional resources for evaluating credit underwriting and administration. Refer to Appendix A

Compliance with Regulations	
Interagency Guidelines Establishing Standards for Safety and Soundness 12 CFR 364 Appendix A Section II.D (Non-member) / 12 CFR 208 Appendix D-1 (Member)	***Select Response***
Compliance with RE Lending Guidelines Appendix A of Part 365 (Non-member) / 12 CFR 208.51, Regulation H (Member)	***Select Response***

Reference Documents	Conclusions – Evaluation Factor 2.1
LTV Exception Report ☐ N/A ☐ Not Included Loan Policy Exception Report ☐ N/A ☐ Not Included Completed loan worksheets, if needed ☐ N/A ☐ Not Included Other Supporting Documents:	

EVALUATION FACTOR 2.2
Evaluate credit administration practices and if it is appropriate and effective for the bank's size, nature, and scope of its loan activities.

Risk Guidance

1. **Evaluate the following:**
    a. Bank practices concerning:
        i. Pre-funding and post funding analysis
        ii. Appropriate use of proceeds
        iii. Ongoing monitoring of primary and secondary sources of repayment
        iv. Compliance with loan approval guidelines
        v. Collateral monitoring including appraisal reviews, internal/external evaluations, and inspections
        vi. Environmental assessments
    b. Condition of credit files
    c. Monitoring and review of the loan exception tracking system considering:
        i. Does management monitor the level of technical exceptions?
        ii. How does management follow up and clear exceptions?
    d. Level and severity of technical exceptions associated with the loans reviewed at this examination including:
        i. Number of lines with TEs
        ii. Percent of lines reviewed
        iii. Percent of the dollar amount reviewed
        iv. Most common documentation exception
            1. Credit monitoring exceptions – financial statements, tax returns, global cash flow statements
            2. Collateral exceptions – inspections, evaluations, updated appraisals, and

3. Other types of exceptions:

e. Trends in documentation exceptions since the last examination.

f. Loan policy exceptions

Technical Exceptions (TEs)	
Dollar Volume of Loans with TEs:	**$**
Percent of Dollar Amount Reviewed:	**%**
Number of lines with TEs:	
Percent of Number of Lines Reviewed:	**%**

Reference Documents	**Conclusions – Evaluation Factor 2.2**
Examiners' Technical Exception Report ☐ N/A ☐ Not Included Other Supporting Documents:	

EVALUATION FACTOR 2.3
Determine if concentrations of credit have reached or are approaching regulatory thresholds. If so, evaluate whether concentrations are prudently measured, monitored, and controlled.

Risk Guidance

1. **Assess the level and trend of concentration exposures. Refer to Appendix B for definition of concentrations.**

   If CRE / C&D loans are at or approaching supervisory concentration levels (as defined in the following Interagency Guidance) perform the CRE Workprogram. Comment on weaknesses noted from the review. Refer to **Appendix B** for more information.

   - *2006 Interagency Guidance: Concentrations in Commercial Real Estate Lending Sound Risk Management Practices*, and
   - *2015 Interagency Statement on Prudent Risk Management for Commercial Real Estate*.

2. **Assess the quality of management and Board oversight, monitoring, and reporting of concentrations.**
   a. Quality of reports
   b. Internal Policy Limits established?
      i. Are limits reasonable?
   c. Sophistication of reports in relation to the size and operational complexity of the institution

3. **If an Oil and Gas concentration exists, consider completing the O&G Workprogram.**

4. **Determine if the bank effectively tracks and monitors High Volatility Commercial Real Estate (HVCRE). Consider the following. See Appendix C for guidance.**
   a. Volume of HVCRE and HVCRE as a percentage of Tier 1 capital and the ACL
   b. Tracking of HVCRE
      i. Do loan memos consider HVCRE?
         1. Consider sampling reports management uses to track the volume and look at specific borrowers
   c. Accounting for HVCRE
      i. Do loan worksheets include HVCRE considerations?
      ii. Are HVCRE loans noted on automated systems?

iii. Are employees trained on HVCRE?

5. **If a large percentage of the portfolio is in a specific lending area, consider completing an applicable loan worksheet listed in [Appendix A](#).**

Reference Documents	Conclusions – Evaluation Factor 2.3
Concentration Reports, if applicable ☐ N/A ☐ Not Included CRE Workprogram, if applicable ☐ N/A ☐ Not Included Completed loan worksheets, if needed ☐ N/A ☐ Not Included Other Supporting Documents	

EVALUATION FACTOR 2.4
Determine if the bank has loan participations and if the participations are properly managed.

Risk Guidance

1. **If the bank has Participations Purchased, assess the following:**
   a. Does the bank review documentation and perform due diligence as if they are underwriting the loan themselves?
   b. Does the bank purchase any out of territory loans?
   c. Is management knowledgeable of the types of loans they are purchasing?
   d. Is the bank receiving timely information from the lead bank?
   e. Document compliance/conformance with:
      i. ASC Topic 860 – Transfers and Servicing that applies to the transferor (seller) of assets and the transferee (purchaser).
      ii. *Interagency Statement on Sales of 100% Loan Participations*.
   f. Refer to *CSBS Considerations for Reviewing Participation Credits* for additional risks to consider.

2. **If the bank has Participations Sold, assess the following:**
   a. Are loans sold with recourse? If so, do underwriting and monitoring meet normal standards?
   b. Are the loans properly accounted for considering legal lending limit purposes?

Adherence to Best Practices in Regulatory Policy	
Interagency Statement on Sales of 100% Loan Participations (4/10/1997)	***Select Response***
ASC Topic 860 Transfers and Servicing that applies to the transferor (seller) of assets and the transferee (purchaser).	***Select Response***

Reference Documents	**Conclusions – Evaluation Factor 2.4**
List of Participations Purchased and Sold	

Reference Documents	Conclusions – Evaluation Factor 2.4
☐ N/A ☐ Not Included Other Supporting Documents	

EVALUATION FACTOR 3
Evaluate the bank's loan policy and whether it meets the bank's needs.

Risk Guidance

1. **Evaluate the adequacy of the Loan Policy. Refer to the FDIC Risk Management Manual of Examination Policies Section 3.2 for characteristics of a strong policy.**
   a. Important points to include in a Loan Policy:
      i. Trade area and circumstances under which the bank may extend credit outside of such area.
      ii. Acceptable/Unacceptable loans addressing guidelines for any type of lending the bank is pursuing.
      iii. Goals for diversification and limits on concentrations of credit.
      iv. HVCRE lending.
      v. Requirements for pre- and post-funding analysis.
      vi. Insider lending restrictions, approvals and requirements.
      vii. Unsecured lending criteria.
      viii. Guidelines for rates of interest and the terms of repayment for secured and unsecured loans.
      ix. Maintenance and review of complete and current credit files on each borrower.
      x. Officer lending authority (limits).

xi. Loan committee composition and responsibilities.

xii. Loan committee lending authority (limits).

xiii. Loan review and grading system.

xiv. Identification and treatment of nonaccrual loans.

xv. Review and treatment of past due loans.

xvi. Criteria for when a loan is to be charged off and how it is handled thereafter.

xvii. Criteria for approval and monitoring of loan policy exceptions; and

xviii. Guidelines addressing the bank's review of the Allowance for Credit Losses (ACL).

b. If the policy does not include any of the items listed above, determine if the item should be addressed in the policy.

2. Evaluate the policy.

a. Does it properly address or provide adequate guidelines for any relevant type of lending activity that the bank is pursuing?

b. Does it address any specialty lending the bank engages it?

c. If there are exceptions to the loan policy, are they reported to the board?

Reference Documents	Conclusions – Evaluation Factor 3
Loan Policy (if weaknesses are noted) ☐ N/A ☐ Not Included Other Supporting Documents	

EVALUATION FACTOR 4.
Determine the adequacy of the Board and Loan Committee oversight of the loan portfolio to ensure the Board and management appropriately identifies, measures, monitors, and controls credit risk.

Risk Guidance

1. **Determine if the Board has formally reviewed/revised/approved the Loan Policy within the last year.**
2. **Evaluate reports provided to the Board and Loan Committee concerning the loan portfolio. Consider:**
   a. Adequacy of reports in relation to the size and complexity of the institution such as:
      i. New and renewed loan list
      ii. Problem loan list
      iii. Past Due list
      iv. Overdraft list
      v. Concentration reports
      vi. Loan exception tracking report.
      vii. Unfunded commitments
      viii. Letters of Credit
      ix. Government Guaranteed Loans

   b. Problem loan, past due, nonaccrual, and overdraft reporting.
   c. Proactive approach to market conditions and changes.
   d. Effective handling of charge-offs.
3. **Evaluate the effectiveness of the Board / Loan Committee(s), by considering:**
   a. Composition, experience, and knowledge of members
   b. Officer and loan committee lending authorities

c. Required approval process

d. Committee Packets/loan presentations

e. Frequency of meetings

f. Adherence to loan policy

g. Adequacy of reports reviewed

4. Determine if identification of problem credits is effective (consult with examiner working Loan Review procedure).

a. How many one step examiner downgrades? How many multiple step downgrades?

b. Are impairment reserves adequate?

5. Evaluate the adequacy of stress testing, if necessary. Consider:

a. Are the types of stress testing utilized appropriate?

b. Does the Board / Loan Committee(s) adequately review the reports?

c. Are the reports actively used as monitoring tools?

d. If no stress testing is performed, are there adequate mitigating factors?

Reference Documents	Conclusions – Evaluation Factor 4
Unfunded Loan Commitments ☐ N/A ☐ Not Included Letters of Credit ☐ N/A ☐ Not Included Government Guaranteed	

Reference Documents	Conclusions – Evaluation Factor 4
Loans ☐ N/A ☐ Not Included Stress Test, if applicable ☐ N/A ☐ Not Included Other Supporting Documents	

EVALUATION FACTOR 5

Determine whether the bank is in compliance/conformance with each applicable regulatory requirement listed below or any other applicable law or regulatory guidance.

Risk Guidance

1. **Determine compliance with the lending limit for a state bank as stated in Texas Finance Code (TFC) §34.201.**
   a. Generally, the total loans and extensions of credit to a person outstanding at one time may not exceed an amount equal to 25% of the bank's unimpaired capital and surplus. However, there are 15 exceptions to this limit that should be reviewed in the TFC.
   b. Additionally, Title 7 Texas Administrative Code (TAC) §§12.1-12.10 contain important definitions and clarifications relating to TFC §34.201 that should be reviewed.
2. **Determine compliance with Regulation O (12 CFR 337.3 for nonmember banks and 12 CFR 215 for member banks) for lending restrictions and recordkeeping requirements.**

3. **Determine compliance with Appendix A of Part 365 of the FDIC Rules and Regulations (or Regulation H, 12 CFR 208.51 for member banks) to ensure proper identification and reporting for loan to value limits for real estate loans.**

4. **Determine compliance with Part 364 Appendix A Section G of the FDIC Rules and Regulations for safety and soundness standards related to Asset Quality.** An institution should establish a system to identify problem assets and prevent deterioration in those assets by:

   a. Conducting periodic asset quality reviews to identify problem assets;

   b. Estimating the inherent losses in those assets and establish reserves that are sufficient to absorb estimated losses;

   c. Comparing problem asset totals to capital;

   d. Taking appropriate corrective action to resolve problem assets;

   e. Considering the size and potential risks of material asset concentrations; and

   f. Providing periodic asset reports with adequate information for management and the board of directors to assess the level of asset risk.

Compliance with Regulations	
Legal lending limit (TFC§ 34.201 and 7 TAC §§12.1 -12.10)	***Select Response***
Regulation O lending (12 CFR 215 for member banks or 12 CFR 337.3 for nonmembers)	***Select Response***
Regulation O record keeping and disclosure requirements (12 CFR 215.8 for member banks or 12 CFR 337.3 for nonmembers)	***Select Response***
Loan to value limits for real estate loans per Appendix A of Part 365 of the FDIC Rules and Regulations for nonmember banks or Regulation H, 12 CFR 208.51 for member banks	***Select Response***
Part 364 Appendix A Section G (Part II.G.) of the FDIC Rules and Regulations for safety and soundness standards related to Asset Quality or 12 CFR 208, Appendix D-1 (Part II.G) for member banks	***Select Response***

Reference Documents	Conclusions - Evaluation Factor 5
Extension of Credit to Insiders (DOE loans) ☐ N/A ☐ Not Included Other Supporting Documents	

EVALUATION FACTOR 6
Determine the effectiveness of the system of internal controls for the lending function.

Risk Guidance

1. **Determine whether proper separation of duties exists**. **Consider items such as:**
   a. How are loan documents prepared, posted, and funded? (Consider whether these functions are separated properly).
   b. How are new and renewed loans approved and booked? Can loan officers renew and extend loans without independent review?
   c. If applicable, what other internal controls does the bank have in place to mitigate the lack of segregation of duties?
2. **Evaluate user access rights**. **Determine if user access levels are appropriate and ensure that one person cannot dominate a transaction from inception to completion. Consider items such as:**
   a. How can the status of a customer's account record be changed? (Consider how many employees are required to make a change.)
   b. What access rights do loan officers have related to performing more than one of these tasks: make a loan, disburse proceeds, or process loan payments?
   c. Who is allowed to post to the loan system?

d. Who reviews exception reports? (Consider whether this is done by someone not involved in the activity.)

e. Consider reviewing the report on loan file and maintenance changes for unusual activity.

3. Determine if proper lines of authority are in place to hold loan officers accountable.

a. Are there exceptions to internally identified officer lending limits?

4. Consider tracing proceeds for a sample of loans that are large or appear unusual and assess disbursement controls.

5. Determine who can change information in the reports that go to the Board or Loan Committee.

a. Who sets the parameters?

b. Who has access to the reporting system?

c. Is there any usual activity during the month that doesn't appear at month-end?

6. Evaluate the accuracy of reports going to the Board or Loan Committee.

a. Consider testing a sample of nonfinancial date reports for accuracy.

Reference Documents	Conclusions – Evaluation Factor 6
:	

APPENDIX A

Loan Worksheets

Consider completing the following worksheets as part of the evaluation of credit administration and underwriting.

Worksheet #1 - Asset Based Lending
Worksheet #2 - Indirect Lending
Worksheet #3 - Floor Plan Inventory Financing
Worksheet #4 - Real Estate Lending
Worksheet #5 - Highly Leveraged Transactions and Leveraged Buy-Outs
Worksheet #6 - Agricultural Lending
Worksheet #7 - Oil and Gas Lending
Oil and Gas - Cash Flow Worksheet - O & G Exploration & Production

Worksheet #8 - Consumer Installment and Credit Card Loans
Worksheet #9 - Letters of Credit
Worksheet #10 - Home Equity Lending
Worksheet #11 - Nontraditional and Subprime Mortgage - *Refer to the Interagency Guidance on Nontraditional Mortgage Product Risks and Statement on Subprime Mortgage Lending for guidance.*

- Return to Risk Guidance 2.1 #2
- Return to Risk Guidance 2.3 #5

APPENDIX B

Concentrations

1. Asset concentrations can be 25% or more of Tier 1 Capital plus the ACL related to loans and leases, by:
   a. individual borrower,
   b. small, interrelated group of individuals,
   c. single repayment source or
   d. individual project.

2. Asset concentrations can be 100% or more of Tier 1 Capital plus the ACL related to loans and leases, by:
    a. industry,
    b. product line,
    c. type of collateral or
    d. short-term obligations of one financial institution or affiliated group.

CRE/C&D Concentrations

- Total reported loans for construction, land development, and other land represent 100 % or more of Tier 1 Capital plus the ACL related to loans and leases; or
- Total commercial real estate loans (as defined in the 2006 Interagency Guidance) represent 300% or more of Tier 1 Capital plus the ACL related to loans and leases, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

CRE Loans Defined Per 2006 Interagency Guidance:

- CRE loans are land development and construction loans (including 1- to 4-family residential and commercial construction loans) and other land loans.
- CRE loans also include loans secured by multifamily property, and nonfarm nonresidential property where the primary source of repayment is derived from rental income associated with the property (that is, loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property.
- Loans to real estate investment trusts (REITs) and unsecured loans to developers also should be considered CRE loans for purposes of this Guidance if their performance is closely linked to performance of the CRE markets.

  Excluded from the scope of this Guidance are loans secured by nonfarm nonresidential properties where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or affiliate of the party, who owns the property.

➢ Return to Risk Guidance 2.3 #1

APPENDIX C

High Volatility of Commercial Real Estate (HVCRE)

Regulatory capital rules (effective on January 1, 2015) require HVCRE loans to be reported on a separate item in the Call Report and are assigned a **risk weighting of 150%**.

Refer to FIL-72-2019 for rule changes effective April 1, 2020.

HVCRE does not include (See 12 CFR 324.2 for full definition of HVCRE exposure)**:**

1. 1-4 Family Residential Projects.
2. Loans for Agricultural Purposes.
3. Community Development Loans.
4. Existing income-producing property secured by a mortgage.
5. Improvements to existing income-producing property secured by a mortgage.
6. Certain Acquisition, Development, and Construction (ADC) Loans.
   - ADC Loans that meet the following are not HVCRE:
     - LTV is below or equal to supervisory limits; AND
     - Borrower has contributed 15% or more of "as completed" AV in cash or unencumbered readily marketable assets; AND
     - Borrower contributed capital is contractually committed until completion.
7. Any loan made prior to January 1, 2015.
8. A loan reclassified as non-HVCRE.

➢ Return to Risk Guidance 2.3 #4