

MOODY'S

Commercial real estate regulatory landscape report

Recent history and outlook



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Adapting to emerging regulatory and economic changes in CRE lending

The impact of economic regulations on CRE lending

CHANGES IN ECONOMIC REGULATORY PRESSURES are an ongoing focal point for banks and financial institutions, specifically with large commercial real estate (CRE) portfolios. Regulatory scrutiny brings challenges that have significant implications for CRE professionals across various functions, including operations, risk management, and forecasting.

This report outlines the current state of the regulatory environment, including the challenges banks with high CRE concentration face, and how Moody's CRE solutions can help decode and address these nuances.

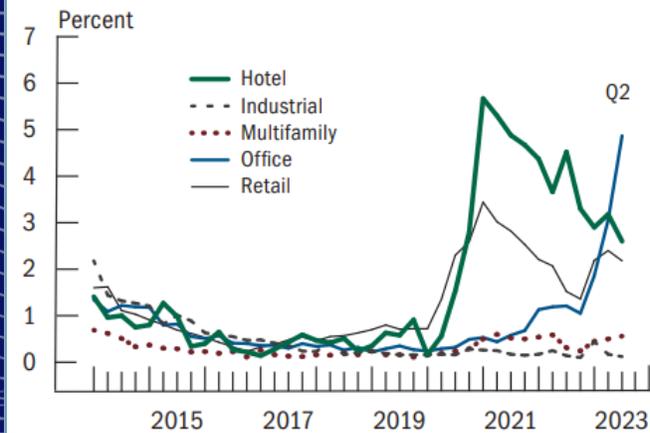
In the wake of change: market adaptations and regulatory reactions

A POST-PANDEMIC HISTORY

The economic trajectory following the Covid-19 pandemic serves as a reminder that consumer behavior and market conditions are always evolving. What's more, many of the loans for these properties will approach maturity in the coming years.

The [Federal Reserve](#) published a [report](#) showcasing the latter half of 2023, when large banks saw a substantial increase in loan delinquency rates, particularly among the Office sector. Additionally, very low transaction volume has limited price discovery. As a result, lenders have become more reliant on appraised values, creating concern that collateral values may be overstated.

Figure 6. Income-producing CRE loan delinquency rates by property type



Note: Delinquent loans are those 30+ days past due or in nonaccrual status.

Source: FR Y-14Q.

Reevaluation of regulatory practices

Signature Bank's, Silicon Valley Bank's, and First Republic Bank's collapse in spring 2023 was largely caused by liquidity constraints and led to a paradigm shift in the regulatory environment. Regulatory agencies, including the Federal Reserve, bore the brunt of the blame, with critics arguing that the agency failed to implement sufficiently rigorous stress tests on bank balance sheets, especially given the rising interest rates and prolonged yield curve inversion.

Agencies are concerned that institutions with concentrated CRE exposures are particularly vulnerable during downturns. As a result, regulators have begun to enforce stricter rules and guidelines. Lenders and borrowers face the complex task of evaluating how potential increases in their debt service obligations under various adverse scenarios would affect their financial stability.



Today's regulatory landscape

ANALYZING PROACTIVE MEASURES FROM REGULATORS

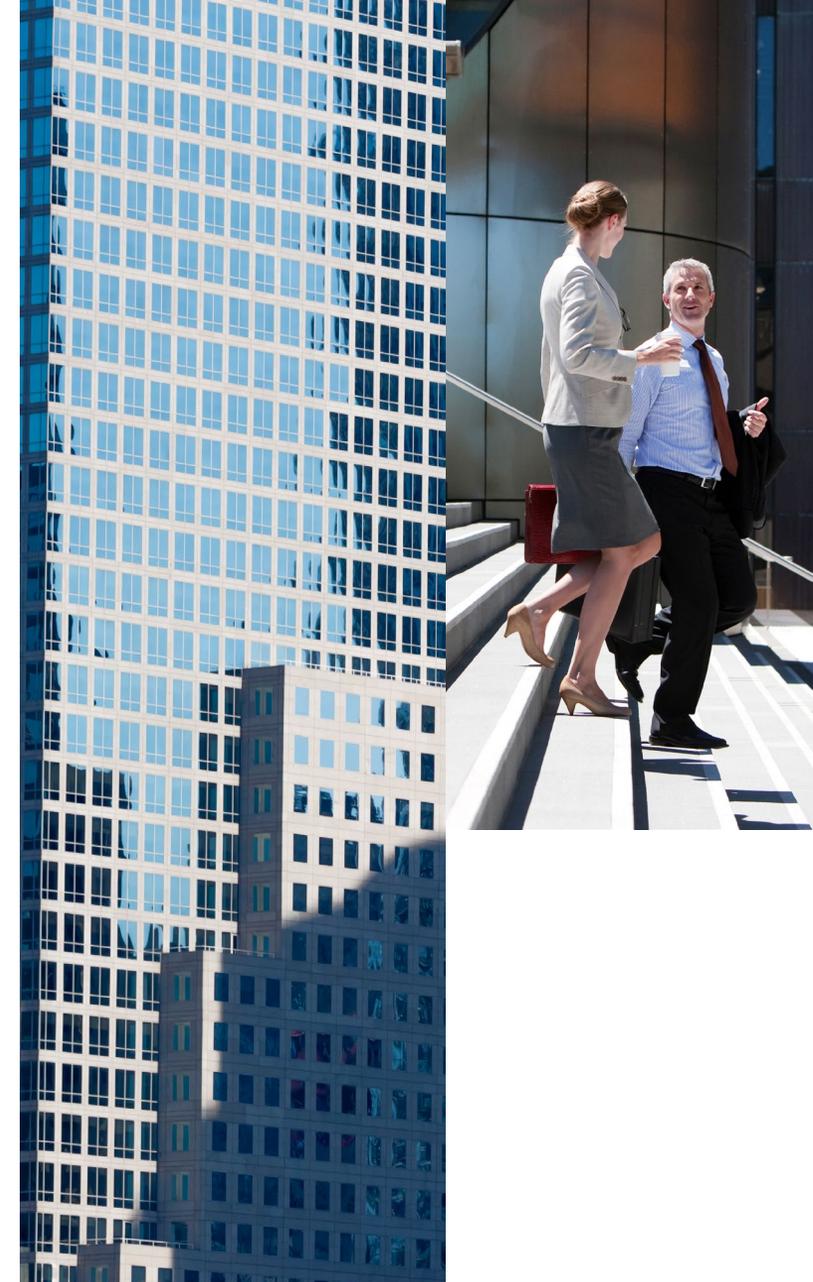
Regulators are aware of commercial real estate's traditionally cyclical nature— particularly how the lows can provide some of the greatest risks to banks due to loan defaults and losses.

Agencies including the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) have been on high alert since the pandemic, honing in on CRE due to its susceptibility to market volatility and external factors.

Share of Bank Total Assets

Bank Category	Multifamily CRE Loans	Commercial CRE Loans	Funded CRE Construction Loans	Total Direct CRE Exposure
Fed "Large" Banks (25 banks, >\$160B total assets)	1.4%	2.1%	0.8%	4.4%
Regional Banks (133 banks, \$19-160B total assets)	4.8%	8.9%	4.0%	17.8%
Community Banks (849 banks, \$1-10B total assets)	6.0%	14.0%	5.8%	25.7%
Small Banks (2,890 banks, \$100mm-1B total assets)	3.1%	10.3%	5.3%	18.7%
Small Banks (726 banks, <\$100mm total assets)	0.9%	3.9%	2.5%	7.3%
NYCB	33.9%	6.7%	2.8%	43.4%

Source: [NYCB Announcement Foreshadows Trouble to Come in 2024, but CRE-Related Downside Has Limits](#)



Navigating increased regulatory scrutiny

Challenges of enhanced regulatory oversight

THE CRITICAL ROLE OF ADAPTIVE STRATEGIES AND COMPREHENSIVE STRESS TESTING

Banks operating in the CRE space face heightened scrutiny, increasing the need for comprehensive loan-level stress testing. A regulatory examination's level of intensity varies based on the bank's size and the threat of perceived risks within its CRE portfolio. Therefore, having an ongoing strategy to adapt to internal and external changes is paramount for all banks with commercial real estate in their books.

Mandated stress tests for CRE loans are designed to assess their resilience. By evaluating how different occupancy levels and rental rates affect these loans, the tests determine if banks can endure challenging scenarios, including unprecedented headwinds and high interest rates. Economic conditions change every year, prompting regulators to adjust their testing criteria accordingly. The dynamic nature of these tests presents a persistent challenge for banks striving to demonstrate their financial stability.

	GDP Growth Rate	Unemployment Rate	10-Year Treasury Yield	Risk Premium	Market Price (%)
Moody's Baseline	1.6%	4.0%	4.2%	2.11%	95.38
Downside – 90th Percentile	-1.5%	7.3%	2.5%	2.71%	91.66
Downside – 96th Percentile	-3.3%	8.0%	2.2%	3.16%	88.36
CCAR 2023 Severely Adverse	-5.6%	8.5%	0.8%	5.06%	79.03

Banks with large CRE portfolios must understand how interest rate fluctuations impact their mortgage valuations. This uncovers insights that enable them to strategically manage and mitigate future market volatility impacts.

Preparing for regulatory challenges

Regulatory frameworks and risk assessment in banking

State and federal regulators engage with banks on a periodic basis, typically every 12-18 months, employing the **Uniform Financial institution Rating System (often referred to as CAMELS)** to evaluate banks' health across various dimensions; meanwhile, other institutions are evaluated using the **RFI rating system**. The CAMELS and RFI rating systems are measured from 1 (strongest) to 5 (weakest), indicating the level of performance.

The **current expected credit loss (CECL)** methodology updates the US accounting rules' generally accepted accounting principles (GAAP) to better predict losses from loans and other assets. It uses past data loss, future financial predictions, and the current economy to make these estimates, replacing the old method that waited for losses to happen first.

The **allowance for loan and lease losses (ALLL)** is an estimation of the probable net charge-offs (the amount of loans expected not to be repaid) and serves to adjust the value of the loan portfolio reported on the balance sheet to adjust for expected loss.

The **Comprehensive Capital Analysis and Review (CCAR)** is an annual assessment that helps major financial institutions maintain a forward-looking and resilient capital planning process tailored to their specific risks.



CAMELS: Capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk



RFI: Risk management, financial condition, and the Impact of the non-depository entities on the subsidiary depository institutions



CECL: an accounting standard introduced by the Federal Reserve to estimate allowances for credit losses



ALLL: an accounting estimate that represents the acceptable amount to cover potential credit losses in a loan portfolio



CCAR: is the Federal Reserve stress test for large US banks to evaluate their capital adequacy and risk management under economic shocks

Navigating the regulatory review process

IT IS CRUCIAL THAT BANKS ENGAGE IN PROACTIVE DIALOGUE with regulators during the review process while also maintaining a paper trail to demonstrate compliance and ongoing efforts to mitigate identified risks. To adapt to regulatory agencies' evolving demands, banks must conduct thorough reviews of their past year's regulatory evaluations, focusing on the identified deficiencies and what measures they took to address them.

FDIC CRE regulatory oversight

Adopting strategic measures for stability in volatile markets

The [FDIC's December 2023 financial institution Letter, Managing Commercial Real Estate Concentrations in a Challenging Economic Environment](#) is based on a version from 2008 when the market was deep in the throes of the financial crisis. The FDIC urges banks to regularly analyze the collectability of their exposures; this involves assessing the probability of repayment for issued loans.

Additionally, the FDIC strongly recommends that banks diversify their funding sources, incorporating a blend of retail deposits, wholesale funding, and various financial instruments. It's also crucial for banks to manage their reserves effectively by allocating capital to cushion against potential loan defaults. Stress testing is also advised. By modeling various adverse economic conditions, banks can gauge potential impacts on their loan portfolios.



FDIC'S SIX KEY RISK MANAGEMENT PRINCIPLES FOR BANKS WITH CRE CONCENTRATIONS

- 1** Maintain strong capital levels
 - Capital maintenance is crucial for institutions to safeguard against unexpected losses, particularly in stressed markets.
 - institutions with significant exposures to construction and development (C&D) and commercial real estate should hold additional capital as a proactive measure.
- 2** Ensure that credit loss allowances are appropriate
 - Allowances for credit loss (ACL) must comply with GAAP, reporting instructions, supervisory guidance, and management's best judgment.
 - Credit losses for both individually assessed loans and the remaining loan portfolio should be addressed.
 - GAAP mandates use of historical data and supportable forecasts to assess loan collectability and determine credit loss.
- 3** Manage construction and development (C&D) and CRE loan portfolios closely
 - Parts [364-365](#) of the FDIC rules and regulations highlight the need for institutions to manage the higher risks associated with significant C&C and CRE concentrations.
 - Institutions must have information systems that supply the board with data on concentration levels and market conditions.
 - Stress testing and sensitivity analysis are essential for assessing the impact of economic changes on asset quality, earnings, and capital, promoting continuous improvement in risk management and capital planning.
 - Effective risk management includes having a strong credit and risk rating system, along with managing interest reserves and loan accommodations, to accurately.
- 4** Maintain updated financial and analytical information
 - Institutions should keep up-to-date borrower financial statements, including property cash flow statements, rent rolls, guarantor personal statements, tax returns, and other income property performance data.
 - Consideration of appraisals and evaluations from various economic conditions is crucial as the economic landscape shifts.
 - This detailed information is essential for conducting meaningful stress testing and scenario analysis.
- 5** Bolster the loan workout infrastructure
 - Ensuring staff have the right skills to handle problem loans is key to resolving legal, appraisal, brokerage, and property management issues.
- 6** Maintain adequate liquidity and diverse funding sources
 - Implement processes to identify, measure, monitor, and control liquidity and funding risks.
 - Maintain diverse and stable funding sources, which are especially crucial during economic challenges.
 - Maintain adequate levels of cash or cash equivalents.
 - Identify and test sources of contingent liquidity, including access to the Federal Reserve discount window.
 - Proper liquidity management enhances an institution's ability to support CRE profitability.

Federal Reserve CRE oversight

In fall 2023, the Federal Reserve released its [Supervision and Regulation](#) report, explaining its developments in 2023 and priorities for 2024. The Federal Reserve Board is focused on monitoring CRE credit fluctuations, loan risk ratings, and risk management reporting protocols.

Supervisors may opt to further examine banks that appear riskier; for instance, an additional credit quality and risk management test may be required at a bank with a rapidly growing CRE concentration.

LARGE BANKS POSE THE GREATEST RISK AND ARE TESTED ANNUALLY USING THE CAMELS SYSTEM, WHILE MIDSIZE BANKS WITH \$100-250 BILLION MAY BE EXAMINED EVERY OTHER YEAR.



REVIEWS ARE CENTERED ON EVALUATING CREDIT RISK MONITORING AND MEASUREMENT, INTERNAL LOAN RISK RATING ACCURACY, RISK MITIGATION EFFORTS ON CRE LOANS, AND CRE RISK REPORTING TO THEIR FIRM'S BOARD AND SENIOR MANAGEMENT.

Regulatory framework for smaller banks

CBOS AND RBOS

Smaller banks with under \$100 billion in total consolidated assets are inspected using the CAMELS system and RFI rating. Smaller banks including **community banking organizations (CBOs)** have less than \$10 billion in total assets, and **regional banking organizations (RBOs)** have total assets between \$10 billion and \$100 billion.



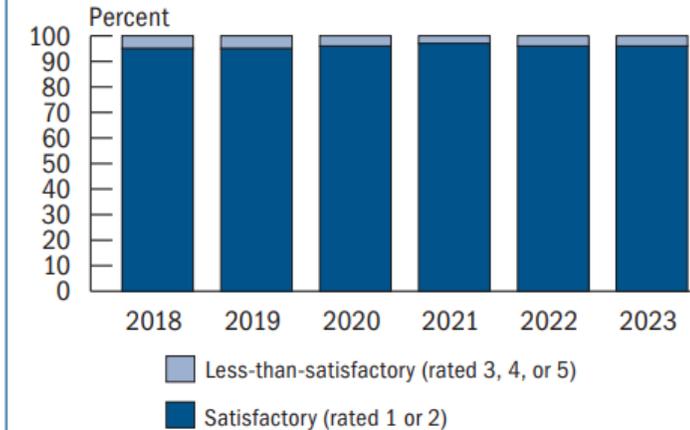
EVALUATING CBOs' AND RBOs' RESILIENCE

Federal oversight of CRE loan management

CBOs and RBOs hold a high percentage of the banking sector's CRE loans, so these players face increased scrutiny from the Fed. Based on June 2023 findings, many CBOs and RBOs were described as "satisfactory". Examiners closely monitor the management of liquidity risk and contingency funding plans as well as a bank's ability to respond to unexpected deposit outflows.

The FRB encourages these banks to maintain reliable, actionable, and diversified funding sources in addition to sufficient collateral to access funds quickly. Expect the Fed to continue demanding robust risk management reports that quantify a changing economy's impact.

Figure 14. Top-tier ratings for CBO and RBO firms



Note: Includes composite ratings for consolidated top-tier holding companies and SMBs without holding companies for CBO and RBO firms. The 2023 value is as of the end of 2023:Q2. Key identifies bars in order from top to bottom.

Source: Internal Federal Reserve supervisory databases.

CCAR and the Federal Reserve

Simulating economic downturns

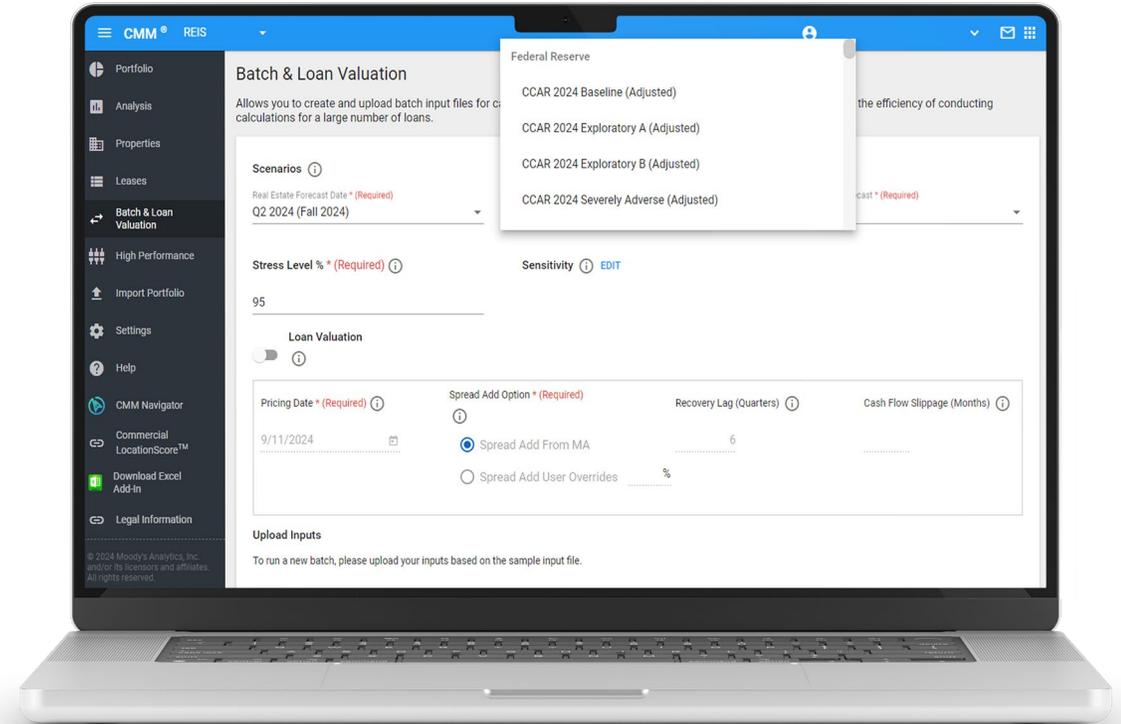
The Comprehensive Capital Analysis and Review, implemented following the 2008 financial crisis, is now a key regulatory tool. It assesses banks' resilience to severe economic downturns, aiming to mitigate potential systemic risks in future crises. Over time, CCAR has undergone substantial development, incorporating additional scenario elements and elevating regulatory standards for capital planning and stress testing procedures at major financial institutions.

The CCAR annually evaluates banks on credit, market, and liquidity risks through hypothetical scenarios. These results are published by law, allowing public scrutiny of bank performance under stress tests. Banks are required to submit their capital plans and undergo stress testing under hypothetical scenarios, including severe economic downturns, but many institutions find it challenging to keep pace with evolving supervisory expectations.

Using advanced computational tools and models not only facilitates compliance with regulatory requirements but also supports strategic capital planning and risk mitigation efforts.

Learn more about CCAR scenarios in Commercial Mortgage Metrics.

[Click here](#)



Utilize technology to simulate CCAR scenarios, forecasting your portfolio's performance under diverse stress conditions. This approach helps in gaining an in-depth understanding of vulnerabilities, enhancing risk management practices, and making well-informed decisions. Such strategic measures are crucial for ensuring regulatory compliance and bolstering financial resilience.



Key OCC updates to CRE lending

MODERNIZING RISK MANAGEMENT PRACTICES

The OCC posted a revised version of the [Commercial Real Estate Lending](#) booklet in March 2022, which provides guidance for prudent risk management and best practices for compliance. The updated booklet applies to community and national banks, federal savings associations, and federal branches and agencies of foreign banking associations. Examiners use the booklet to evaluate each bank depending on its individual circumstances. The new version of the booklet includes OCC issuances that have been published and rescinded since the 2017 edition and incorporates modernized risk management and supervisory guidance.

There are specific guidelines laid out for banks when examining CRE portfolios, particularly regarding credit risk reviews and internal auditing. The booklet highlights the importance of banks issuing periodic, independent credit risk reviews to verify risk rating accuracy and operational effectiveness to assess the portfolio's overall quality. Internal audits offer critical information regarding the effectiveness of internal controls typically including underwriting, disbursement, credit administration, workout activities, and ALLL or ACL processes, among others.

Evolving practices for CRE loan workouts

On June 29, 2023, regulators [issued a joint statement](#) on commercial real estate loan accommodations and workouts. This statement was first issued in 2009 following the global financial crisis and incorporates minor accounting-related updates.

The statement offers a framework for approaching commercial real estate loans in a manner that can relieve borrowers and lenders if applied judiciously. The policy provides guidelines detailing how to modify and extend loans without facing losses.

The 2023 updates include a recommendation that banks accommodate borrowers who face financial challenges and demonstrate an honest willingness to repay debts. Institutions that properly implement prudent CRE accommodations are absolved from criticism by regulators.



Consequences of noncompliance

Implications of noncompliance



Regulatory compliance is crucial in banking to ensure financial stability, consumer protection, and system integrity. However, some banks occasionally fail to meet these standards.

If financial shortcomings or risk issues are found, regulators may issue “matters requiring attention” (MRA) findings or “matters requiring immediate attention”(MRIA) findings to prompt swift and effective resolution of these concerns.

Noncompliance poses two main threats: a downgrade in CAMELS rating, affecting a bank's operational freedom, reputation, and increasing oversight; and the supervisor’s potential enforcement actions. Supervisory ratings are issued yearly for larger firms and every 18 months for smaller ones.

“Banks that are approaching regulatory thresholds for CRE parameters risk damaging consequences and punitive measures to their institutions.”

- Blake Coules, Senior Director
Industry Practice Lead

Regulatory outlook

Assessing banks' financial stability and resilience

To assess banks' financial stability and resilience under extreme economic conditions, the Federal Reserve conducts annual stress tests, an essential tool for regulatory oversight. There were 31 banks included in the 2024 Federal Reserve stress test results report that passed the "severely adverse" test requirements for commercial real estate.

Stress testing

These tests are designed to evaluate how a bank would fare if the economy took a sudden nosedive, ensuring they have adequate capital reserves to withstand such shock.

The hypothetical recession referred to as a "[Severely Adverse Scenario](#)" was used in 2024. The scenario assumes a 40% decrease in value of CRE, a 10% unemployment rate, and a projected CRE loan loss rate that mirrors 2023's at 8.8%.

The results of this test determine whether a bank falls above the Common Equity Tier 1 minimum capital requirements.

Table 2. Key Variables in 2023 and 2024 supervisory severely adverse scenarios

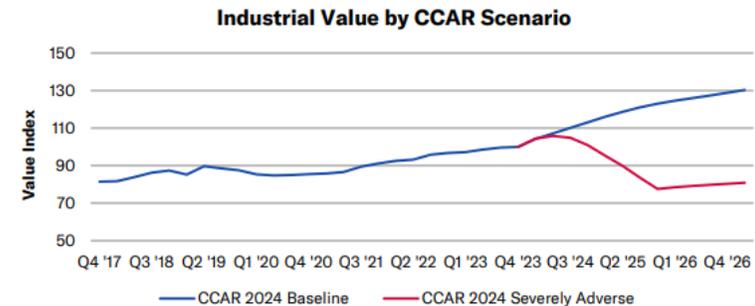
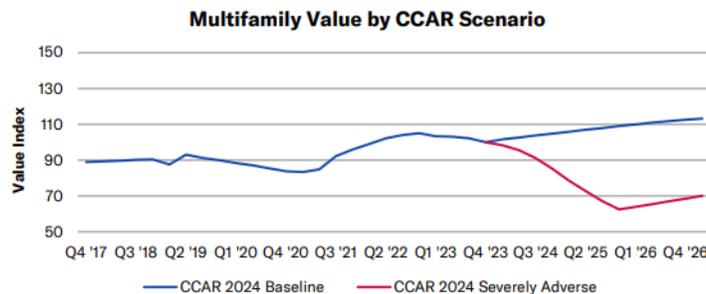
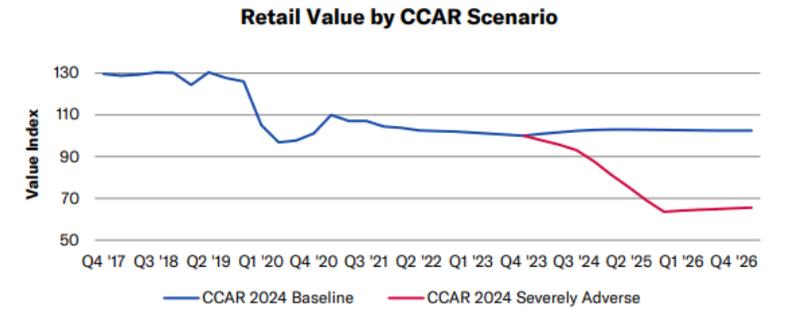
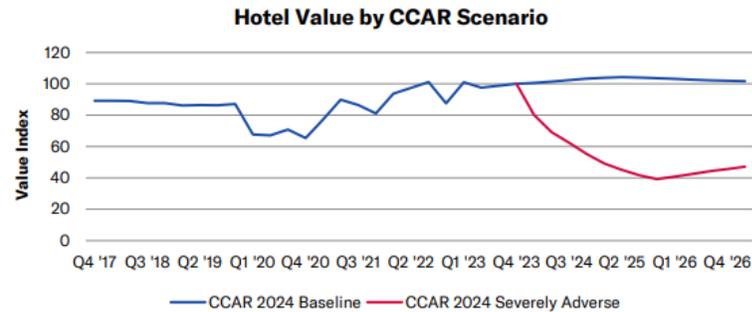
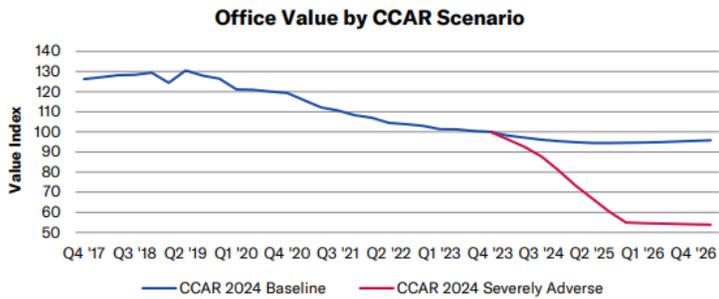
	2023 severely adverse	2024 severely adverse
Unemployment rate	6.4 p.p. to 10%	6.3 p.p. to 10%
Real GDP (peak-to-trough change)	8.7%	8.5%
House Prices	38%	36%
CRE prices	40%	40%
3-month Treasury	4.0 p.p. to 0%	5.3 p.p. to 0%
BBB-bond rate spread equity prices	45%	55%

Note: p.p. is percentage point.

Source: <https://www.federalreserve.gov/publications/files/2024-dfast-results-20240626.pdf>

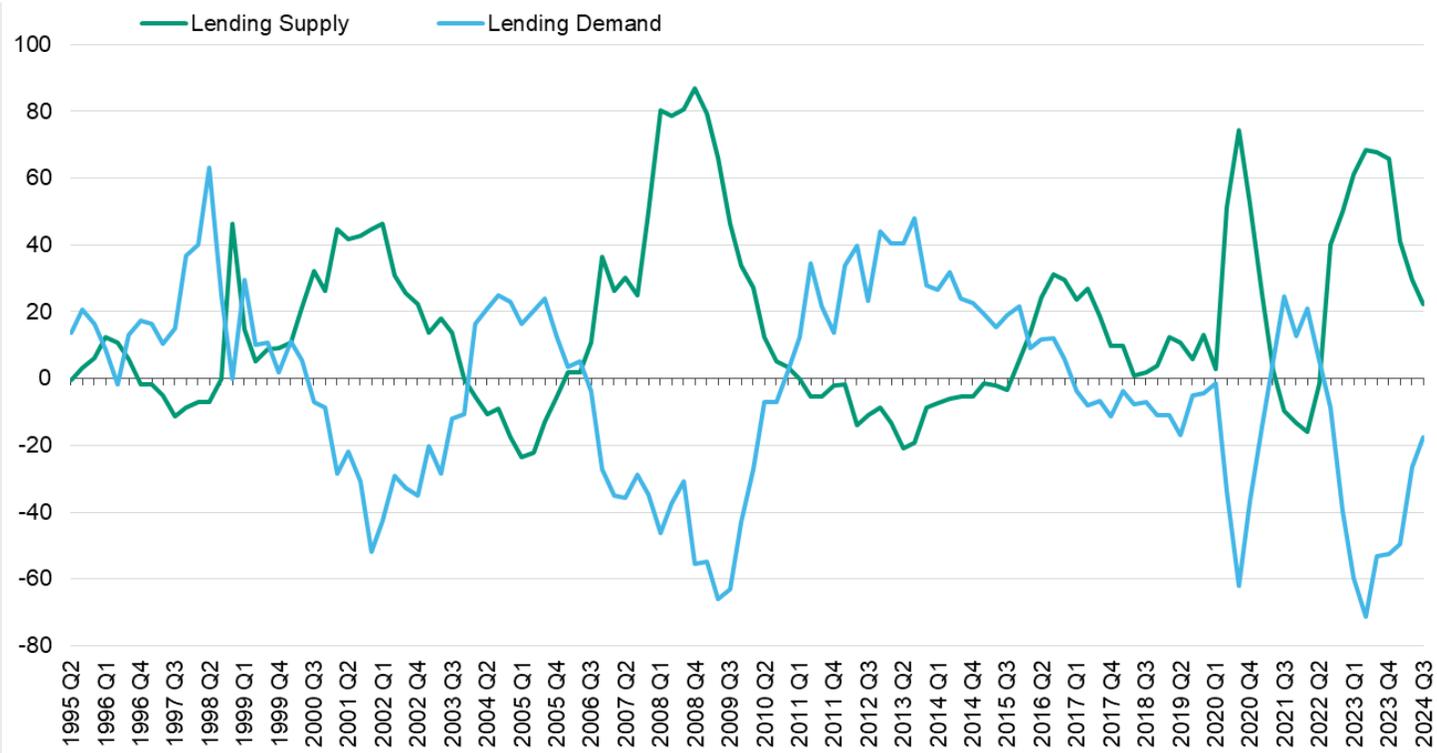
CCAR 2024 and CRE sector analysis

Moody's has introduced a proprietary approach to align the Fed's CCAR macroeconomic variables with CRE-specific factors including vacancy and rental growth rates, net operating income growth, and cap rates. Below is an illustration of the anticipated national average CRE Value Index for varied property categories, according to the two 2024 CCAR scenarios, Baseline Scenario, and Severely Adverse Scenario. This alignment aids in compliance with regulatory expectations and in maintaining sufficient capital to cover losses during economic downturns.



Gap between supply and demand for CRE debt tightening

The FDIC senior loan officer opinion survey tracks changes in banks' lending practices and risk attitudes. Survey data showing underwriting standards and loan demand converging indicates banks might start relaxing their lending criteria due to rising demand, hinting at a potential upturn in the lending market. This scenario draws regulatory scrutiny to prevent excessive risk-taking that could threaten financial stability, like past crises. As the market recovers, banks are challenged to increase lending by adjusting underwriting standards, while ensuring they remain compliant with financial stability regulations.



Sources: FDIC, Moody's CRE

Banks under spotlight

Office Performance

Year	Net Absorption	Asking Rent	Percent Change	Effective Rent	Percent Change	Vacancy Rate
2014	28.9	\$30.24	3.1%	\$24.45	3.2%	16.9%
2015	38.0	\$31.28	3.4%	\$25.32	3.6%	16.5%
2016	29.3	\$32.00	2.3%	\$25.95	2.5%	16.2%
2017	23.3	\$32.57	1.8%	\$26.42	1.8%	16.4%
2018	23.0	\$33.45	2.7%	\$27.14	2.7%	16.7%
2019	38.7	\$34.33	2.6%	\$27.88	2.7%	16.8%
2020	-6.6	\$34.50	0.5%	\$27.73	-0.5%	17.8%
2021	18.5	\$34.49	0.0%	\$27.55	-0.6%	18.1%
2022	7.4	\$35.15	1.9%	\$28.05	1.8%	18.8%
2023	-16.4	\$35.54	1.1%	\$28.19	0.5%	19.6%
2024	2.0	\$35.94	1.1%	\$28.32	0.5%	20.2%
2025	32.3	\$36.43	1.4%	\$28.72	1.4%	20.2%
2026	33.6	\$37.01	1.6%	\$29.26	1.9%	20.0%
2027	46.3	\$37.67	1.8%	\$29.87	2.1%	19.4%
2028	42.5	\$38.40	1.9%	\$30.59	2.4%	18.9%

Source: Moody's CRE

INCREASING INFORMATION REQUESTS

Following significant bank failures, regulatory bodies are intensifying their scrutiny on the financial sector's potential systemic risks.

They are now calling for more detailed disclosures from banks due to tougher borrowing environment characterized by stricter lending standards and less available credit.

Banks with substantial investments in CRE loans are at a heightened risk of financial instability or failure. This risk is driven by the potential for increased loan defaults and losses, as borrowers may struggle to meet their obligations under more stringent conditions.

Furthermore, the combination of rising interest rates and higher property vacancies could exacerbate losses for these banks. Regulators are increasingly worried that challenges within the CRE lending market might precipitate wider financial distress among banks with significant CRE exposures.

Addressing compliance with Moody's CRE solutions

Succeeding with Moody's CRE solutions

Harness the power of Moody's CRE solutions to aid in regulatory compliance standards through detailed insights and analytics.



Leverage predictive analytics to provide accurate risk ratings, including assessments of loss given default and expected loss, providing a more nuanced and forward-looking approach to risk management.



Perform thorough stress testing through simulating diverse economic scenarios, assisting banks in pinpointing potential portfolio vulnerabilities to help them prepare for adverse conditions.



Generate comprehensive reports for executive boards and regulators to maintain strategic alignment, providing essential documentation and insights that aid in showcasing regulatory compliance.

Speak to an expert.

[Request a demo](#)

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Pro Tip:

Using Moody's CRE data and solutions empowers lenders to navigate periods of heightened regulatory scrutiny with confidence by providing comprehensive and reliable data analytics. This detailed insight supports adherence to compliance mandates through enhanced risk assessment, accurate market analysis, and predictive insights.

Demonstrate a nuanced understanding of CRE portfolios

Utilize scenarios for forward-looking risk management and stress testing

- CCAR scenarios
- Macroeconomic scenarios
- Climate scenarios

Generate risk ratings and metrics essential for complying with CECL

- Expected loss
- Probability of default
- Loss given default
- Implied ratings

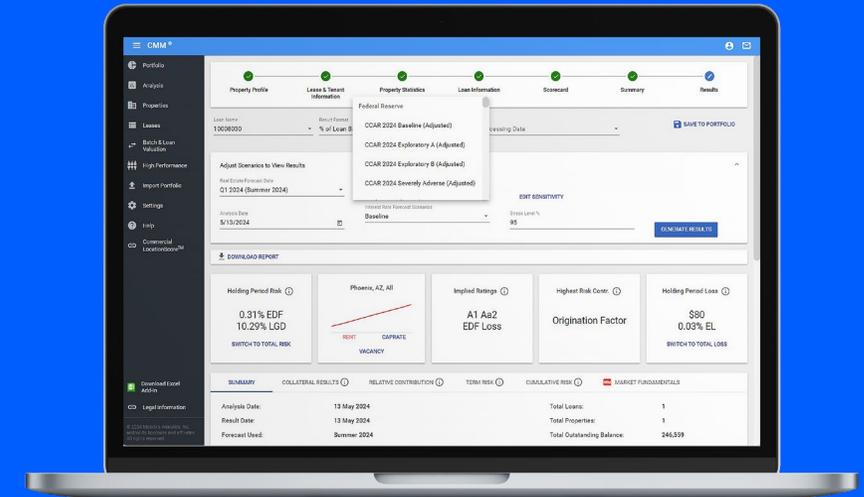
Access detailed loan-by-loan portfolio monitoring, allowing for precise tracking and forecasting of loan values and cash flows.

Leverage valuation and performance benchmarks to understand credit risks' direct impact on your portfolio's performance and aid in adherence to regulatory compliance standards.

Learn more about CMM.

[Click here](#)

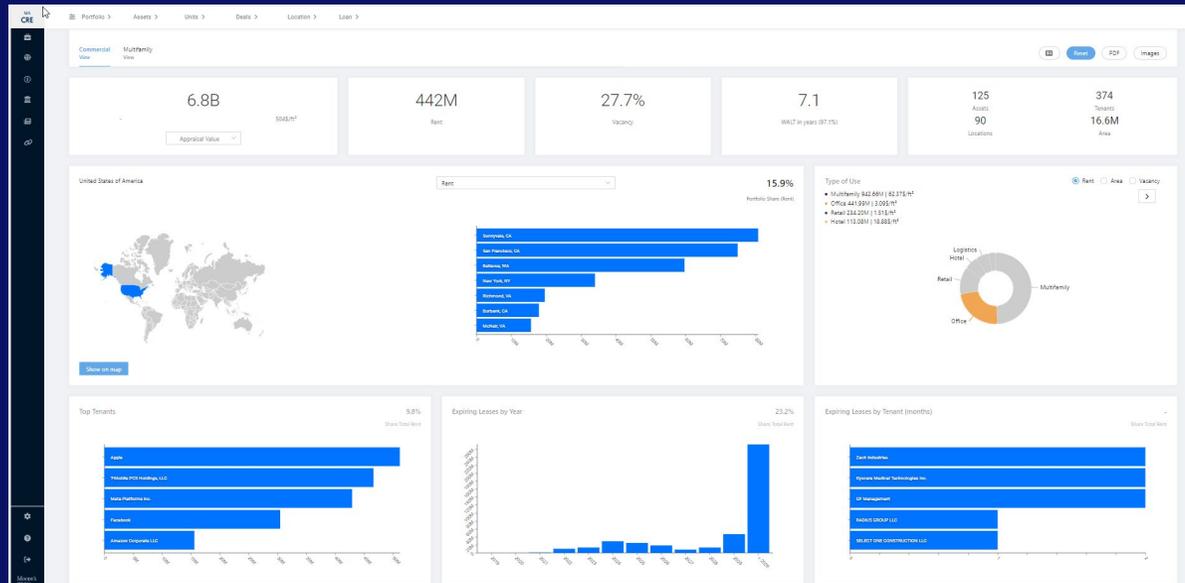
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We designed our CRE analytics tools to aid lenders in meeting stringent regulatory requirements while providing deep insights into CRE mortgage exposure risk.

Our solutions facilitate regulatory stress testing and optimize risk-adjusted yields for prudent risk management and capital allocations, helping institutions maintain a balance between profitability and regulatory compliance.

Enhanced reporting for regulators



Moody's CRE workflow solutions streamline compliance requests and enhance portfolio management by integrating proprietary data with sophisticated processing for clear visibility and actionable insights. Our centralized workflow and analytical tools allow for precise performance monitoring and reporting, risk assessment, and portfolio management, making them vital resources for optimizing investment strategies and navigating regulatory complexities in CRE.

Institutions heavily exposed to CRE will face tighter regulatory oversight, requiring more detailed and regular portfolio reporting

Utilize enhanced reporting capabilities to aid in satisfying regulatory standards by providing detailed insights into CRE investment risks, demonstrating a comprehensive understanding to regulators.

Track, visualize and drill into key performance indicators such as cap rates, interest rates, and net operating income, improving asset-level performance on a granular level.

Deploy AI capabilities for real-time monitoring and alerts on critical events like tenant bankruptcies and natural disasters to provide proactive risk management inline with regulatory expectations.

Leverage dashboards with advanced analytics to identify trends, opportunities and areas of improvement, facilitating data-driven decisions that align with regulatory guidelines and improved portfolio stability. Establish standardized repeatable risk evaluation processes that help expedite decision-making, enhance transparency, and help satisfy evolving regulatory compliance demands.

Learn more about CRE Portfolio Manager.

[Click here](#)

Navigate the regulatory landscape with a trusted CRE partner

Achieve more with Moody's CRE solutions

The regulatory landscape for banks in past years does not reliably predict the nature or extent of regulation in the current or future years. To navigate ever-changing compliance requirements and prepare for future regulatory changes, engaging with a trusted partner in CRE is critical.

Moody's CRE provides sophisticated data, analytics, and tailored solutions that are crucial for maintaining compliance with current regulations and anticipating future changes. By leveraging resources offered by a trusted CRE partner, you can proactively address potential compliance issues, minimize the risk of regulatory scrutiny, and build resilience against the evolving challenges of the regulatory landscape.

Speak to an expert.

[Request more information](#)

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Final takeaways

Blake Coules

Senior Director
Industry Practice Lead
| CRE



Blake Coules, Moody's CRE Senior Director and Industry Practice Lead, offers four essential insights to effectively manage regulatory scrutiny and refine your CRE risk management strategy:

KEY TAKEAWAYS:

1

Address previous deficiencies and build confidence with your lead examiner

Past deficiencies can be a good indicator of where your lead examiner may focus their scrutiny. More importantly, it provides an important opportunity for you to demonstrate the actions you have taken to mitigate those deficiencies and risks. This instills confidence in your lead examiner and helps your institution appear proactive in addressing identified deficiencies.

2

Manage expectations and stay up to date on new regulations

Be aware of new regulations or regulatory changes in the past 18 months and be prepared to present a concrete plan about how you are moving toward compliance with those regulations. Regulators don't expect full, immediate compliance but ultimately want proof that you are proactively managing risks by moving toward compliance.

3

Provide granular loan-level analysis in an era of intensified CRE scrutiny

Increasing CRE scrutiny means it is no longer enough to present regulators with a portfolio-level analysis of risks. Make sure you can produce reports and stress tests that forecast various time intervals and stress critical loan factors such as cap rate, interest rate, and debt service coverage at the loan level

4

Demonstrate in-depth awareness with a 360-degree view of CRE market

CRE is a market-specific industry. Being able to speak to a loan's specific market and asset class conditions - primarily the new supply entering that market and the rate at which it is being absorbed - is a solid demonstrator that you are aware of a loan's environment and the factors that may affect its risk profile. Additionally, it provides greater insight into risks that may not be factored into stress tests and risk-forecasting analyses, further demonstrating to regulators that you possess a truly 360-degree view of a loan's risks.

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