

Date: [Insert Date]

Subject: Interagency Supervisory Guidance on Commercial Real Estate (CRE) Risk Management

To: The Board of Directors and Senior Management of [Financial Institution Name]

1. Purpose

This letter provides updated guidance on managing risks associated with Commercial Real Estate (CRE) lending. It reinforces sound risk management practices for institutions with significant CRE concentration levels or those experiencing rapid growth in CRE lending portfolios.

2. Supervisory Expectations

The agencies expect financial institutions to maintain risk management practices commensurate with the size and complexity of their CRE concentration. Key focus areas include:

- **Board and Management Oversight:** Active involvement in setting risk appetites and monitoring portfolio performance.
- **Portfolio Management:** Regular stress testing and sensitivity analysis to evaluate the impact of changing market conditions.
- **Underwriting Standards:** Maintaining disciplined lending criteria, including conservative loan-to-value (LTV) ratios and debt service coverage (DSC) requirements.
- **Market Analysis:** Ongoing assessment of local market trends, vacancy rates, and rental growth projections.

3. Concentration Risk Monitoring

Institutions should identify and monitor concentrations by property type (e.g., office, retail, hospitality) and geographic location. Management should establish internal limits and reporting mechanisms to trigger corrective actions if limits are exceeded.

4. Credit Review and Allowance

Robust credit review functions must independently assess loan quality. Institutions must ensure that the Allowance for Credit Losses (ACL) or Allowance for Loan and Lease Losses (ALLL) adequately reflects the inherent risk within the CRE portfolio.

5. Conclusion

Adherence to this guidance will be a primary focus during upcoming safety and soundness examinations. Institutions are encouraged to review their current CRE risk management frameworks to ensure alignment with these expectations.

Sincerely,

[Authorized Signature]

[Title]

[Regulatory Agency Name]