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Supervisory LTV Requirements (Banks)

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Scope & Policy Requirements

- **Written Lending Policy:** Each institution must adopt and maintain a written real estate lending policy that establishes appropriate limits and standards for all extensions of credit secured by liens on or interests in real property, reviewed and approved by the Board of Directors (Board) at least annually.
- **Applicability:** Interagency Guidelines apply to insured State non-member banks (Federal Deposit Insurance Corporation (FDIC)), State member banks (Federal Reserve (FRB)), and national banks (Office of the Comptroller of the Currency (OCC)). **Note that:** Credit unions are subject to NCUA's separate real estate lending rules and are not covered by these guidelines.
- **Internal Limits:** Institutions may set their own internal LTV limits, but those limits may not exceed the supervisory limits established by the agencies.
- **Risk-Based Calibration:** For any subcategory of loans that exhibits greater credit risk than the overall category, institutions should set internal limits lower than the limit for the overall category.

Supervisory LTV Limits

- **Raw land:** 65%
- **Land development:** 75%
- **Construction — commercial, multifamily, and other nonresidential:** 80%
- **Construction — 1-4 family residential:** 85%
- **Improved property:** 85%
- **Owner-occupied 1-4 family and home equity:** No specific limit established — see next slide.

  Note that: The LTV ratio is calculated at origination using the lesser of the appraised/evaluated value or the sale price for purchase loans. Subsequent declines in property value do not affect the calculation.

Owner-Occupied 1-4 Family & Home Equity

- **No Established Limit:** The Interagency Guidelines do not establish a specific supervisory LTV limit for permanent mortgage or home equity loans on owner-occupied, 1-4 family residential property.
- **90% Threshold:** For any such loan with an LTV ratio that equals or exceeds 90% at origination, the institution must require appropriate credit enhancement in the form of either:
    - Mortgage insurance; or
    - Readily marketable collateral.
- **Definition — *Owner-Occupied*:** A property is considered owner-occupied when the owner of the underlying real property occupies at least one unit as a principal residence.
- **Definition — *Readily Marketable Collateral*:** Insured deposits, financial instruments, and bullion in which the institution has a perfected interest that are salable under ordinary circumstances with reasonable promptness at a fair market value.

Complex Scenarios

- **Multiple-Phase Projects:** For loans funding multiple phases of the same real estate project (e.g., land development and construction), the applicable LTV limit is the limit for the final phase funded by the loan. Disbursements may not exceed actual development or construction outlays.
- **Multi-Stage CRE:** The bank may use the higher LTV ratio when actual construction begins at the next stage of development — for example, advancing at the land development rate until construction begins, then advancing at the applicable construction rate.
- **Cross-Collateralized Loans:** The maximum loan amount is the sum of the value of each property (less senior liens) multiplied by the applicable supervisory LTV limit for each property type.
- **Valuation Basis:** The value used to calculate the LTV may be:
  - As-is (for raw land and stabilized properties);
  - As-complete (for owner-occupied or pre-leased construction); or
  - As-stabilized (for non-pre-leased construction or properties not yet stabilized).

Exemptions

Excluded Transactions: The Interagency Guidelines exclude from supervisory LTV limits any loan that is:

- Guaranteed by a U.S. government agency or guaranteed/backed by a State government, provided the guaranty covers at least the portion of the loan exceeding the supervisory LTV limit;
- Guaranteed by a State, municipal, or local government entity, provided coverage and guarantor financial capacity conditions are met;
- To be sold promptly after origination, without recourse, to a financially responsible third party;
- Renewed, refinanced, or restructured without new funds advanced, or with/without new funds advanced in a workout situation;
- Made to facilitate the sale of real estate acquired by the lender in the ordinary course of collecting a previously contracted debt;
- Subject to an abundance of caution lien;
- Not principally reliant on real estate as security and not used to acquire, develop, or construct improvements (such as working capital loans); or
- For permanent improvements to real property that does not secure the loan if a security interest is not required.

Policy Exceptions

- **Permissibility:** Institutions may originate/purchase individual loans with LTV ratios that exceed supervisory limits if other credit factors are sufficient.
- **Identification and Documentation:** Institutions must identify exception loans and maintain a written justification, including all relevant credit factors, and approval documents in the permanent loan file.
- **Aggregate Limits:** Exception loans for commercial, agricultural, multifamily, or other nonresidential properties may not exceed 30% of total capital with an aggregate cap on all exception loans of 100% of total capital.
- **Note that:** Institutions will come under increased supervisory scrutiny as aggregate exception levels approach these capital thresholds.

Board Reporting Requirements

- **Quarterly Reporting:** The Board must receive a quarterly report of all loans that exceed supervisory LTV limits, including:
  - The aggregate amount; and
  - Individual loans that are a significant size.
- **Inclusion Rules:** Aggregate amounts must include: all loans secured by the same property if any one loan exceeds the supervisory limits; and the recourse obligation of any such loan sold with recourse.
- **Removal from Tracking:** A loan is removed from the aggregate exceptions total when the LTV conforms with supervisory limits because the lien(s) was reduced or additional collateral or equity was contributed.