FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

High Volatility Commercial Real Estate

High Volatility Commercial Real Estate (HVCRE)

HVCRE*
150% Risk Weight

=

Total Acquisition, Development, or Construction (ADC) Loans

Less

- 1-4 Family Residential Projects
- Secured by Properties for Agricultural Purposes
- ADC Loans Meeting Certain Criteria**
- Community Development Loans

*HVCRE means a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction of real property unless it meets on of the exceptions above.

**Criteria described on upcoming page

HVCRE - Agricultural Exemption

- **Excluded from HVCRE if finances**
  - The purchase or development of agricultural land, which includes land known to be used or usable for agricultural purposes, provided that the valuation of the agricultural land is based on the value for agricultural purposes and the valuation does not take into consideration any potential use of the land for non-agricultural commercial development or residential development

HVCRE – Community Development Exemption

- **Excluded from HVCRE if**
  - Real property that would qualify as an investment in community development under 12 U.S.C. 338a or 12 U.S.C. 24 (eleventh), as applicable or as a “qualified investment” under 12 CFR 345.12 (g)

HVCRE – Other Exemption

Excluded from HVCRE if:

- LTV is ≤ the applicable maximum supervisory LTV; **and**
- The borrower has contributed capital to the project in the form of cash or unencumbered readily marketable assets (or has paid developmental expenses out-of-pocket) of at least 15% of the real estate's appraised as-completed value; **and**
- Capital must be contributed before bank advances funds, and capital contributed or generated by the project, is <u>contractually</u> required to remain in the project throughout the life of the project. The life of project concludes only when converted to permanent financing, sold, or paid in full.

Example One

1a. This is a loan to construct a 10-unit strip mall. It was underwritten at 77 percent loan to cost and 80 percent loan to value based on the completed project value, conforming to bank policy. The equity contribution was in the form of cash paid (15% of as completed value) for the land the borrower contributed.

The Credit Administrator tells you that the loan meets all other requirements of Basel III. Is this an HVCRE loan? Why?

Example One (Continued)

1b. The next day, you see a check payable to the borrower for a significant amount of money. You learn that this is for a draw on the 10-unit strip mall loan, reducing the cash contribution to 11 percent.

- **Now is this an HVCRE loan? Why or why not?**

Example Two

2. This is a $10 million loan to construct a mixed use building that is retail on the ground floor with four single family condominiums above was just approved and funded in March 2016.

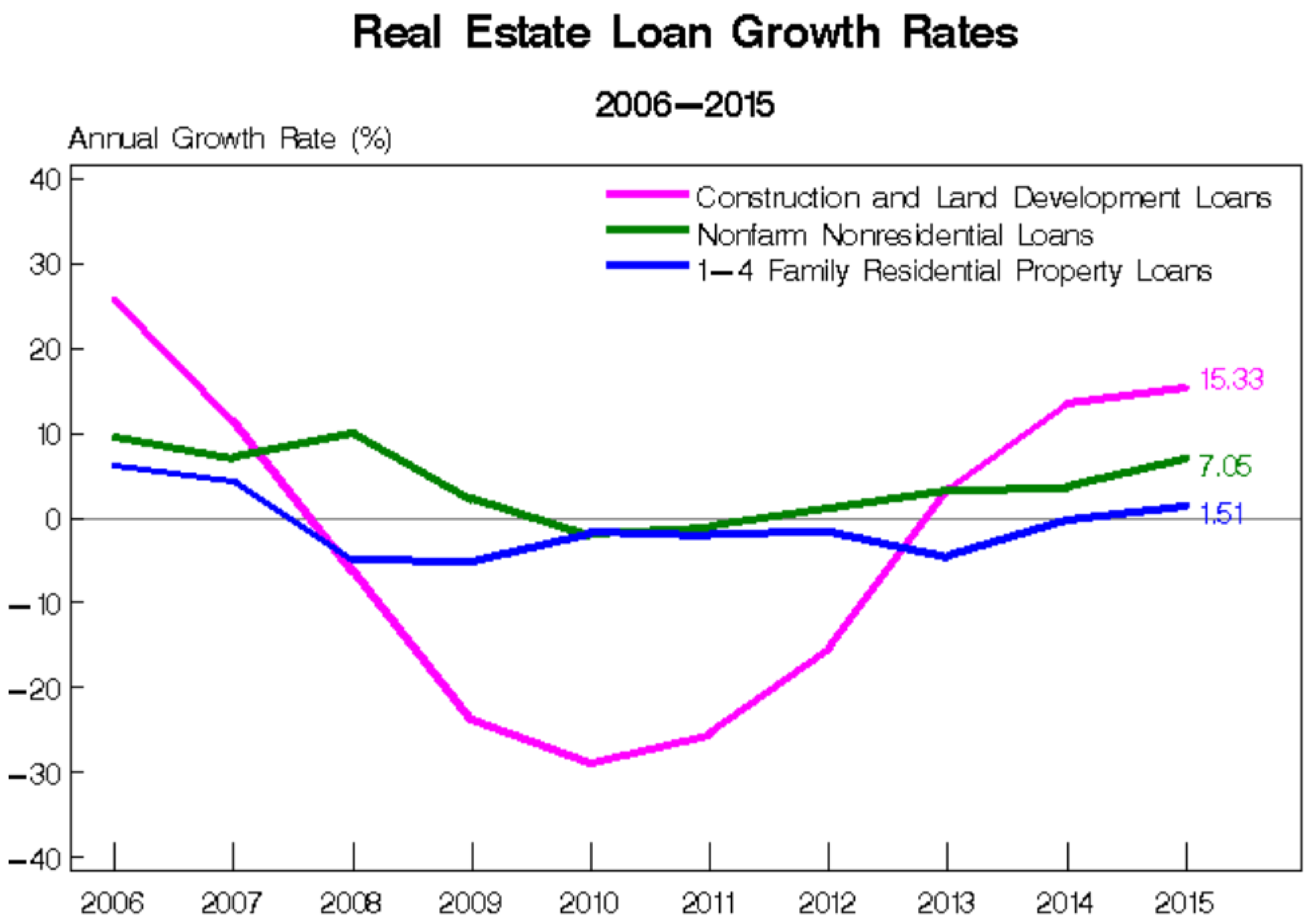
- **Is this an HVCRE loan?**

- **What if the project above was to build eight single family condominiums above the retail space?**

HVCRE – FAQs document and Resources

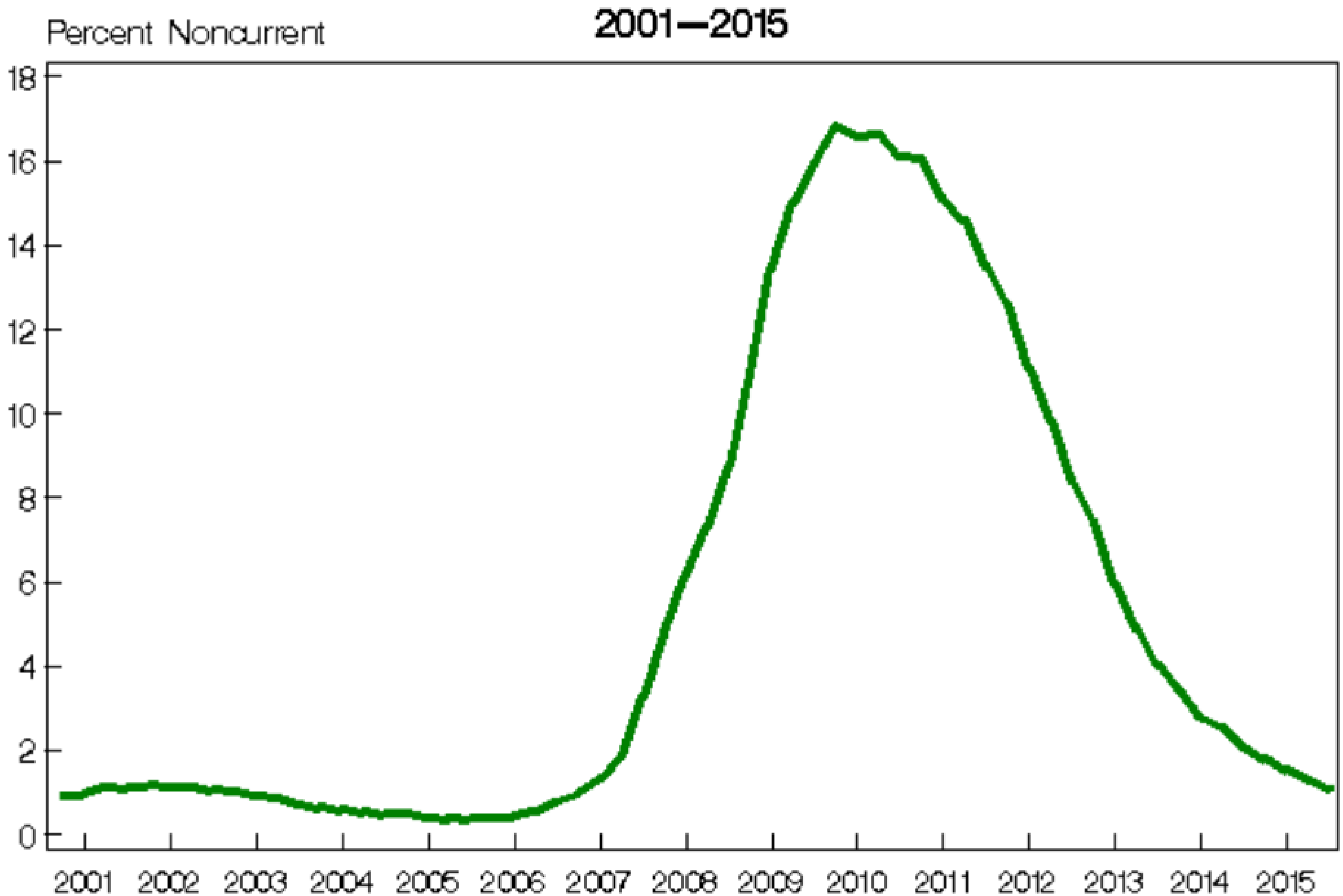
- **FAQs**

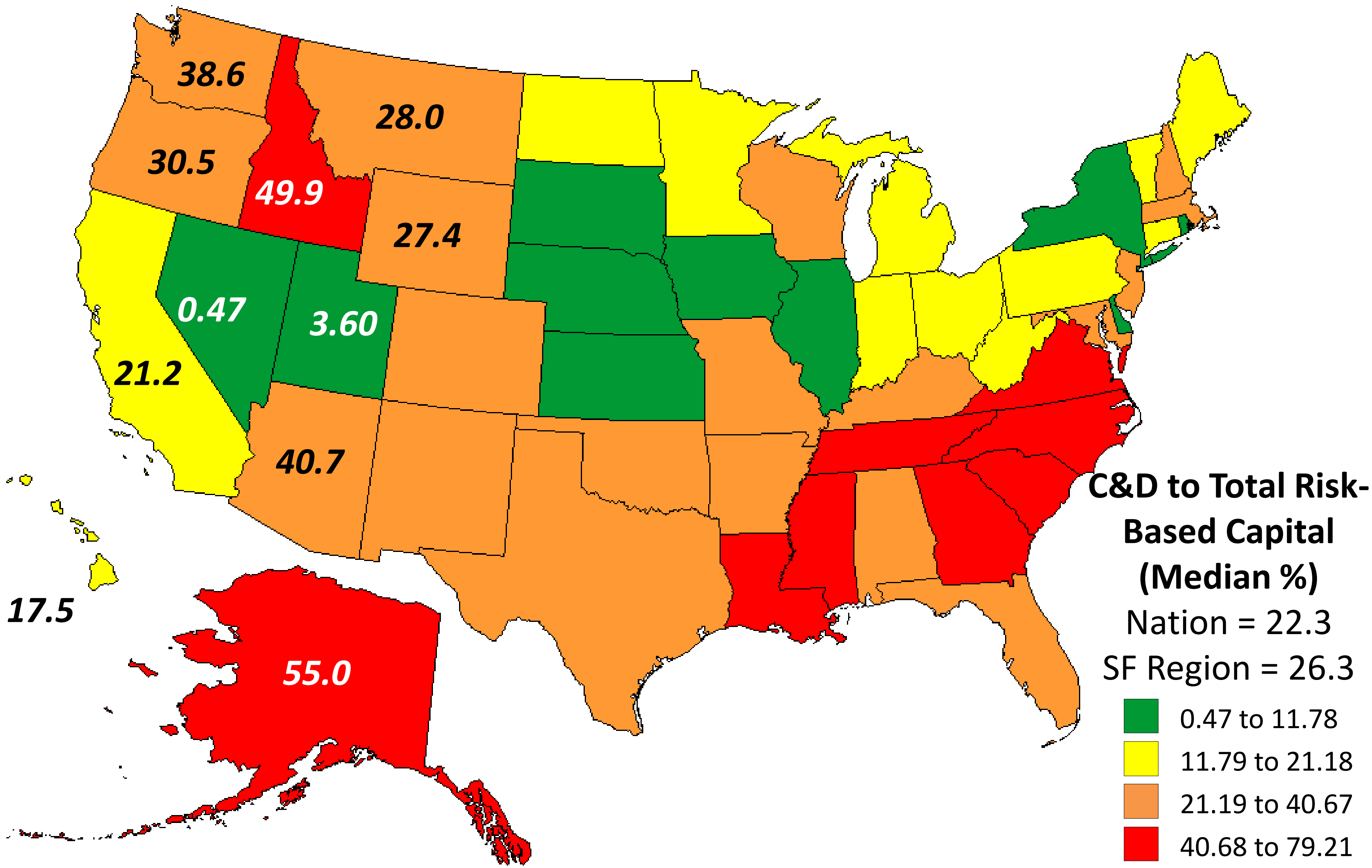
- **Resources**
  - https://www.fdic.gov/regulations/capital/capital/index.html
  - Questions: regulatorycapital@fdic.gov



Real Estate Loan Growth Rates
2006–2015
Annual Growth Rate (%)
Construction and Land Development Loans
Nonfarm Nonresidential Loans
1–4 Family Residential Property Loans
15.33
7.05
1.51
40
30
20
10
0
–10
–20
–30
–40
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015

Noncurrent Rate on Real Estate Construction and Development Loans



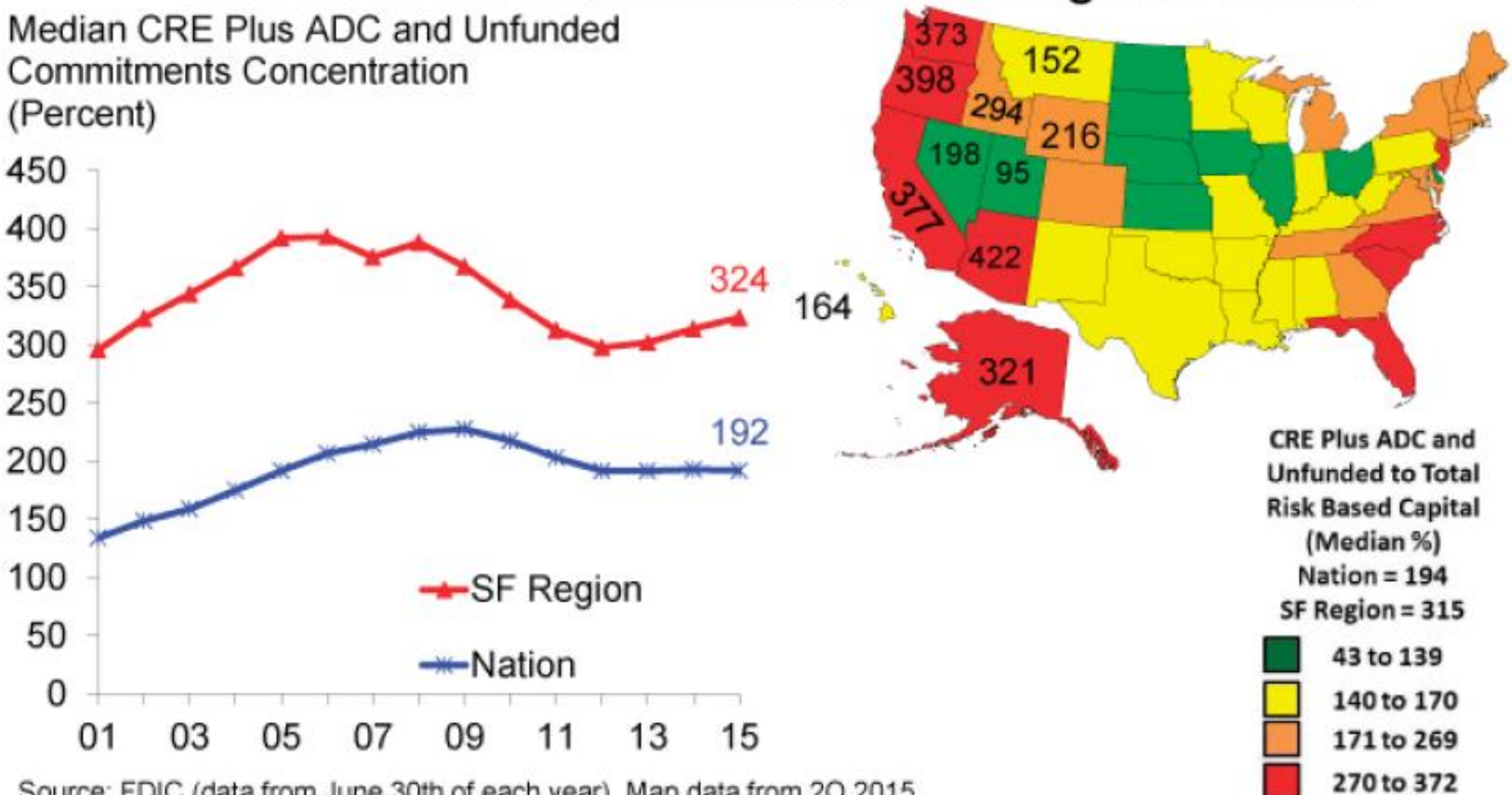


Source: FDIC (data as of fourth quarter 2015).

Note: Map shows state rankings (based on medians) with the top 10 states shaded green, bottom 10 shaded red, and yellow and orange are separated by the national median indicated in legend. SF Region = San Francisco Supervisory Region.

Chart 8 – CRE Concentrations

CRE Loan Concentrations Remain High in the West and Above the Nation in Most of the Region's States



Source: FDIC (data from June 30th of each year). Map data from 2Q 2015.
Note: Includes construction and development (C&D) loans secured by real estate, multifamily loans secured by real estate, nonfarm/nonresidential loans secured by real estate, C&D loans not secured by real estate, ADC loans, and unfunded commitments.