



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

Clarification as of June 25, 2018: As reflected in CA 18-4, which supersedes CA 15-4, the Protecting Tenants at Foreclosure Act of 2009 (PTFA) – which had expired on December 31, 2014 – was restored effective June 23, 2018. Accordingly, the PTFA is once again an applicable federal law for purposes of this letter and policy statement.

SR 12-5

CA 12-3

April 5, 2012

Revised June 25, 2018

TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK AND TO EACH BANKING ORGANIZATION SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: Policy Statement on Rental of Residential Other Real Estate Owned (OREO) Properties

Applicability to Community Banking Organizations: While this guidance applies to all institutions supervised by the Federal Reserve, the statement is particularly relevant to large banking organizations with significant portfolios of residential OREO properties.

The Federal Reserve is issuing the attached *Policy Statement on Rental of Residential OREO Properties* (policy statement) to remind banking organizations and examiners that the Federal Reserve's regulations and policies permit the rental of OREO properties as part of an orderly disposition strategy within statutory and regulatory limits.

In light of the current extraordinary conditions in housing markets, the policy statement indicates that banking organizations may rent one- to four-family residential OREO properties without having to demonstrate continuous active marketing of the properties, provided suitable policies and procedures are followed. The policy statement applies to state member banks, bank holding companies, nonbank subsidiaries of bank holding companies, savings and loan holding companies, non-thrift subsidiaries of savings and loan holding companies, and U.S. branches and agencies of foreign banking organizations (collectively, banking organizations).¹

The policy statement describes key risk management considerations for banking organizations that engage in the rental of residential OREO, including compliance with holding-period requirements for OREO, compliance with landlord-tenant and associated requirements,

¹ This policy statement supplements other relevant Federal Reserve guidance, including the Board's policy statement on the disposition of property acquired in satisfaction of debts previously contracted. See 12 CFR 225.140.

and accounting according to generally accepted accounting principles. Rental OREO properties with leases in place and demonstrated cash flow from rental operations sufficient to generate a reasonable rate of return should generally not be classified.

The policy statement also establishes specific supervisory expectations for banking organizations that undertake large-scale residential OREO rentals (generally, 50 properties or more available for rent). Such organizations should have formal policies and procedures governing the operation and administration of OREO rental activities, including property-specific rental plans, policies and procedures for compliance with applicable laws and regulations, a risk management framework, and oversight of third-party property managers.

Federal Reserve Banks are asked to distribute this letter to the banking organizations in their districts, as well as to supervisory and examination staff. For questions related to this guidance, please contact William Treacy, Adviser, Division of Banking Supervision and Regulation, at (202) 452-3859; or Tim Robertson, Senior Supervisory Consumer Financial Services Analyst, Division of Consumer and Community Affairs, at (202) 452-2565. In addition, questions may be sent via the Board's public website.²

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and Regulation

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Director
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Attachment:

- *Federal Reserve Policy Statement on Rental of Residential Other Real Estate Owned Properties*

Cross References to:

- SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines"
- SR letter 00-17, "Guidance on the Risk Management of Outsourced Technology Services"
- SR letter 95-16, "Real Estate Appraisal Requirements for Other Real Estate Owned (OREO)"
- CA letter 09-5, "Information and Examination Procedures for the 'Protecting Tenants at Foreclosure Act of 2009'"
- CA letter 05-3, "Servicemembers Civil Relief Act of 2003"

² See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.