



中國銀行
BANK OF CHINA


Bank of China USA Branches


Other Real Estate Owned Policy

November 2019

Version	Date Changes Made	Author	Description of Changes
2016 v.01	November 2016	George Moy	Policy Establishment
2017 v.01	November 2017	George Moy	Annual Update
2018 v.01	December 2018	Celia Yeh	Annual Update
2019.v.01	November 2019	Daniel Hu and Celia Yeh	Annual Update

Identifying Information	
Title	BOC US Branches Other Real Estate Owned Policy
Policy Owner	Credit Risk Management Department
Contact Information	Daniel Hu (dhu@bocusa.com) Celia Yeh (tcyeh@bocusa.com)
Effective Date	12/19/2019
Location	Policy Library
Document Type	Policy

Approved by	
Risk Management and Internal Control Committee	See RMICC meeting minutes dated 12/19/2019
Yong Ma EVP, Chief Risk Officer	 11/29/2019
	Signature Date
Credit Risk Committee	See CRC meeting minutes dated 11/27/2019

Reviewed by	
Lei Zhao SVP, Head of Credit Risk Management Department	 11/27/2019
	Signature Date
Celia Yeh VP, Credit Risk Management Department	 11/27/2019
	Signature Date

Contents

1. Executive Summary	3
1.1. Rationale	3
1.2. Related Policies	3
2. The Scope	4
3. Roles & Responsibilities	4
3.1. Policy Governance.....	4
3.2. Three Lines of Defense.....	5
4. Policy Statement & Standards	5
4.1. Policy Statement Overview.....	5
4.2. Holding Period.....	6
4.3. Accounting at Acquisition	6
4.4. Appraisals and Evaluations	6
4.5. Concentrations.....	7
4.6. Environmental Risk Management.....	7
4.7. Managing Foreclosed Properties	7
4.8. Disposition of OREO	7
5. Policy Assurance Methods	8
5.1. Implementation Plan	8
5.2. Awareness Methods	8
5.3. Training Methods.....	8
5.4. Policy Adherence Monitoring	9
5.5. Update Requirements.....	9
5.6. Consequences of Violating the Policy	9
5.7. Exceptions & Exemptions.....	9
6. Reference Information.....	10
6.1. External Regulations	10
6.2. Glossary.....	10

1. Executive Summary

The Other Real Estate Owned (“OREO”) Policy (the “Policy”) applies to the Bank of China New York Branch and its satellite branches (collectively “BOC US Branches,” “BOCNY,” or “Branch”) licensed by the Office of the Comptroller of the Currency (“OCC”).

OREO is real estate, including capitalized and operating leases, that is

- acquired through any means in full or partial satisfaction of a debt previously contracted.
- a former banking facility including a property that was acquired for future expansion but for which banking use is no longer contemplated.

For regulatory reporting purposes, OREO also includes

- equity holdings, such as limited liability companies, that indirectly represent real estate acquired through foreclosure or by deed in lieu of foreclosure.
- real estate collateral securing a loan when the bank has obtained physical possession of the collateral, regardless of whether formal proceedings have been instituted against the borrower.
- foreclosed real estate sold under contract and accounted for under the deposit accounting method in accordance with the Financial Accounting Standards Board’s Accounting Standards Codification (ASC) subtopic 360-20.

The Branch places great importance on the management and risk control of OREO. This document outlines the Policy formalized by the Credit Risk Management Department (“CRM”) of the Branch to establish and describe the requirements for activities.

1.1. Rationale

The Policy sets forth the Branch’s principles of managing OREO due to distressed loan, and has been developed in accordance with regulatory guidelines.

1.2. Related Policies

- Bank of China US Branches Credit Risk Management Policy
- Bank of China US Branches Commercial Real Estate Risk Management Policy
- Bank of China US Branches Real Estate Appraisals Policy
- Bank of China US Branches Allowance for Loan and Lease Losses Policy
- Bank of China US Branches Third Party Management Policy
- Bank of China US Branches Commercial Real Estate Risk Management Procedure
- Bank of China US Branches Allowance for Loan and Lease Losses Methodology
- Bank of China US Branches Loan Workout Procedure

2. The Scope

The scope of this Policy is to set forth the guidance for managing OREO acquired through any means in full or partial satisfaction of a debt previously contracted. The Policy focuses on the OREO acquired due from lending activities that the Branch foreclosed on the property. For OREO acquired for the purpose of banking facility and not related to lending activities is out of the scope of this Policy.

The Policy establishes standards for BOCNY related to first, second and third lines of defense responsibilities for managing the OREO arising from credit risk activities.

3. Roles and Responsibilities

3.1. Policy Governance

CRM is responsible for maintaining and updating the Policy. The Policy shall be reviewed and approved by CRC and RMICC.

Risk Management and Internal Control Committee ("RMICC")

The RMICC provides oversight of the Branch's credit risk management framework. The RMICC is responsible for approving the risk policies, reviewing and discussing reports on credit risk management, assessing the comprehensiveness and effectiveness of BOCNY's credit risk management program, and overseeing the performance of its credit risk professionals. RMICC provides final approval on this Policy.

Credit Risk Committee ("CRC")

The CRC reviews and monitors credit risk on a portfolio wide basis and makes recommendations regarding strategy. The CRC oversees the overall asset quality, and make recommendations regarding credit strategy, credit risk appetite, credit risk profile(s), credit portfolio(s) including credit risk limits and credit portfolio optimization decisions; and, as required, to suggest courses of action in response to portfolio performance, and market and regulatory conditions.

Credit Approval Committee ("CAC")

The CAC is a subcommittee of the CRC. The purposes of the CAC is to review and approve the individual credits and loans to support BOCNY's business; oversee the problem credit workout process; maintain a safe and sound loan portfolio; and comply with regulatory standards. The responsibilities of the CAC are to recommend collection strategy of problem credits; review and approve new credits and monitor individual credits, and extension of existing credit limits; review the Watch List credits, approve workout strategy of the problem credit and oversee its implementation; review and approve policy/procedure exceptions, control exception within limit, and report exception to CRC; review Shared National Credit

result, external loan review report and approve any rating change proposed by FLUs and/or IRM; and review and approve the special reserve and Workout Plan.

3.2. Three Lines of Defense

Credit Risk Management is facilitated through BOCNY's three lines of defense: Front Line Units ("FLUs"), Independent Risk Management ("IRM"), and Internal Audit ("IA").

The FLUs operate within a defined and transparent risk taking environment and is accountable for the risks that arise from FLUs' activities. The business departments originate the real estate loans, including the Corporate Banking Department ("CBD"), CHB, QNB, and LAB. These FLUs are responsible for ensuring the OREO process is compliant with the Policy, and related regulatory requirement. Financial Management Department ("FMD") is responsible for establishing the accounting rules and providing accounting guidance to the business departments, as well as ensuring the accuracy of the call report and financial report.

The IRM reviews, oversees, and challenges independently for the execution of this Policy implemented by the FLUs. The CRM shall update, maintain, control and distribute this Policy.

The Internal Audit Department ("IAD") provides independent assurance of the first and second line activities.

4. Policy Statement and Standards

4.1. Policy Statement Overview

The purpose of the Policy is to establish guidance for the Branch on the acquisition, management, and disposition of OREO due from distressed real estate loans that the Branch foreclosed on the property in order to ensure that:

- the Branch's holding period for OREO is compliant with federal and states laws;
- Appraisals and Evaluations of OREO are compliant with federal and states laws;
- funds expend to develop and improve OREO are compliant with federal laws;
- concentration are properly measured and managed;
- the Branch manages foreclosed properties in line with federal and states laws;
- appropriate controls to limit the Branch's exposure to environmental liability from OREO.

4.2. Holding Period

The Branch must dispose of OREO at the earliest time that prudent judgment dictates, but the holding period must be no long than five (5) years, with up to an additional five (5) years if approved by the OCC. The holding period begins on the date that ownership of the property is originally transferred to the Branch and the redemption period, if any, has expired.

To seek an extension of the five-year holding period, the Branch must file a request to demonstrate to the OCC that it has made a good-faith effort to dispose the property within the initial five-year period or that disposal of the property within the initial five-year period would be detrimental to the bank.

4.3. Accounting at Acquisition

Upon foreclosure or physical possession, whichever is earlier, OREO should be recorded at the fair value of the property, less the estimated cost to sell; this amount becomes the new cost basis of the property. The amount by which the recorded amount of the loan exceeds the new cost basis is a loss and must be charged to the allowance for loan and lease losses (ALLL). If OREO is sold shortly after it is acquired, the amount of the loss originally charged to the ALLL may be adjusted for the value actually received in the sale (net of the cost to sell).

For detailed accounting rule and guidance, please refer to procedures owned by Financial Management Department ("FMD"), GAAP and the call report instructions for other accounting and reporting requirements for other foreclosed assets.

4.4. Appraisals and Evaluations

The Branch shall obtain an appraisal or evaluation, yearly, or as often as needed to substantiate the market value of each parcel upon transfer to OREO.

In circumstances when the Branch transfers the property to OREO but does not yet have access to the interior of the property, an exterior-only appraisal may be performed utilizing an extraordinary assumption regarding the interior condition of the property. Once access is obtained, the Branch should inspect the property to determine if the assumption, and appraisal, remains valid. If conditions warrant, an updated appraisal should be performed.

The Branch does not need to obtain a new appraisal or evaluation when selling OREO if the sale is consummated based on a valid appraisal. The FLUs should monitor the OREO values including appropriate periodic reviews of the property throughout a property's holding period. These reviews should substantiate the carrying value of the property.

Additional guidance please refers to *BOC US Branches Real Estate Appraisals Policy*.

4.5. Concentrations

Holding OREO may represent concentrations in specific types of real estate or in specific geographic locations even though the types of real estate may be different because economic conditions in a particular geographic location may pose similar risks to different types of real estate. Concentrating risk in OREO is considered together with real estate concentration in the Branch's credit portfolio. The Branch identifies and separately analyzes the types of properties that are included in the account, the aging of properties, and the efforts to sell the properties.

4.6. Environmental Risk Management

Environmental risk assessment is required at loan origination. When the property use changes during the holding period, an appropriate environmental assessment should be performed in order to identify potential adverse effect of environmental contamination and ensure appropriate controls to limit the Branch's exposure to environmental liability from OREO.

4.7. Managing Foreclosed Properties

In acquiring title to foreclosed properties, the Branch assumes the primary responsibilities of an owner, including providing maintenance and security, paying taxes and insurance, and serving as landlord for rental properties. The Branch manages the foreclosed properties with the following guidance:

- For Federal Housing Administration (FHA)-insured mortgages, the Branch must ensure compliance with property and preservation guidance issued by the U.S. Department of Housing and Urban Development (HUD) to preserve the insurance claim and obtain reimbursements for allowable expenses.
- Following foreclosure, the Branch must record its ownership interest in local land records.
- The Branch must comply with OREO appraisal and accounting requirements.
- The Branch should maintain appropriate insurance on the property.
- Some localities may require registration of foreclosed properties, properties in foreclosure, or vacant properties. The Branch should be aware of and comply with such requirements.
- The Branch must comply with Protecting Tenants at Foreclosure Act of 2009 and the Servicemembers Civil Relief Act.
- The Branch should return any security deposit upon termination of the rental agreement.
- The Branch must comply with the Service members Civil Relief Act.

4.8. Disposition of OREO

The Branch may dispose OREO by:

- entering into a sale in accordance with GAAP;
- entering into a transaction that involves a loan guaranteed or insured by an agency of the U.S. government, or a loan eligible for purchase by a federally sponsored instrumentality that purchases loans;
- selling the property pursuant to a land contract or a contract for deed;
- retaining the property for its own use as bank premises or by transferring it to a subsidiary or affiliate for use in the business of the subsidiary or affiliate with respect to real estate acquired in exchange for debts previously contracted; or
- Any other ways approved by the OCC consistent with safe and sound banking practices.

The Branch must make diligent and ongoing efforts to dispose of each parcel of OREO and maintain documentation adequate to reflect those efforts. The disposition plan is part of the loan workout process and shall be included in the Workout Plan and Loan Workout Monthly Report (Please refer to *BOC US Branches Loan Workout Procedure*), monitored and reviewed by the CAC and approved by CRO and CEO. The Head Office has final approval authority.

5. Policy Assurance Methods

5.1. Implementation Plan

Policy implementation is the responsibility of the first, second, and third lines of defense as outlined in the Policy Governance section and the RGF.

5.2. Awareness Methods

The Policy will be distributed to key stakeholders via email if there is any changes. The Policy will also be available in the BOCNY's Policy Library.

5.3. Training Methods

The CRO is responsible for establishing an environment where credit risk professionals have sufficient training and technical expertise. CRM, in partnership with Human Resources Department ("HRD"), will provide training on this Policy or as the CRM determines is necessary to promote full understanding of the Policy.

5.4. Policy Adherence Monitoring

Each applicable department head is responsible for monitoring and assessing the compliance of its procedures with this Policy. Internal Audit Department will also perform periodic monitoring of compliance through its annual testing program.

5.5. Update Requirements

The Policy should be updated every three (3) years or more frequent if needed. CRM is responsible for taking a proactive role in ensuring this policy remains relevant and comprehensive. CRM is responsible for monitor internal and external circumstances to determine if and when a policy update may be required in accordance with the Branch's Policy on Policies and Procedures.

CRM should communicate with counterparts to ensure that this Policy appropriately considers emerging risks in other risk disciplines, which may impact this Policy. This communication may take place through attendance at working groups, meetings, and through other informal means of communication.

5.6. Consequences of Violating the Policy

Failure to comply with this Policy will be escalated to the CRO and in certain circumstances to the USRMC, which will consider appropriate remedial action. Violations of the Policy are grounds for disciplinary action, adapted to the circumstances of the particular violation and having as a primary objective furtherance of BOCNY's interest in preventing violations and making clear that violations are neither tolerated nor condoned.

5.7. Exceptions & Exemptions

The exception approval process contained in this Policy aligns with the requirements described in the Branch's Credit Risk Management Policy. Exceptions to this Policy must be justified in writing, presented to CRM, and the approval of RMICC is required. The decision to grant a policy exception should be documented along with a discussion of the business reasons for the exception.

Documentation on requests and approvals for exceptions to the Policy must include, at a minimum:

- The nature of the exception requested (i.e. approval exception)
- The individual or group that is requesting the exception
- Incremental risk exposure (in frequency and amount when applicable)
- The time period during which the exception is effective
- The business reasons for granting the exception
- Mitigating factors

- Planned remediation and closure of the exception, if an effective period is provided

Responsibility for tracking policy exceptions is the responsibility of the business unit requesting the exception. Exceptions to the Policy will then be aggregated by CRM and levels and trends of exceptions will be reported to the RMICC on a quarterly basis.

6. Reference Information

6.1. External Regulations

- Comptroller's Handbook Other Real Estate Owned (September 2013)
- OCC Commercial Real Estate Lending Handbook (August 2013) Interagency Appraisal and Evaluation Guidelines: OCC 2010-42 (December 10, 2010)

6.2. Glossary

Term	Definition
CHB	Chicago Branch
CAC	Credit Approval Committee
CRC	Credit Risk Committee
CRE	Commercial Real Estate
CRM	Credit Risk Management Department
CRO	Chief Risk Officer
FLU	Front Line Unit
HRD	Human Resource Department
IAD	Internal Audit Department
IRM	Independent Risk Management
LAB	Los Angeles Branch
NYB	New York Branch
OREO	Other Real Estate Owned
QNB	Queens Branch
RGF	Risk Governance Framework
RMICC	Risk Management and Internal Control Committee
USRMC	US Risk and Management Committee