Joint Release

Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of Thrift Supervision

For Immediate Release December 13, 2006

Federal Financial Regulatory Agencies Issue Interagency Policy Statement on the Allowance for Loan and Lease Losses and Frequently Asked Questions

The federal financial regulatory agencies announced today the issuance of a new interagency policy statement on the Allowance for Loan and Lease Losses (ALLL) and supplemental Frequently Asked Questions (FAQs). The policy statement revises and replaces a 1993 policy statement on the ALLL.

The agencies believe an assessment of the appropriateness of the ALLL is critical to the safety and soundness of a financial institution, especially in today's uncertain economic environment and when concentrations in untested loan products are present. The policy statement has been updated to ensure consistency with generally accepted accounting principles (GAAP) and post-1993 supervisory guidance. The 1993 policy statement was issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. It was intended to describe: the responsibilities of the boards of directors, management, and examiners of banks and savings associations regarding the ALLL; factors to be considered in the estimation of the ALLL; and the objectives and elements of an effective loan review system, including a sound credit grading system. The revised policy statement updates this guidance and also extends it to credit unions and their examiners. The National Credit Union Administration has joined the other agencies in issuing the revised policy statement.

This revision reiterates key concepts and requirements included in GAAP and existing ALLL supervisory guidance. The ALLL represents one of the most significant estimates in an institution's financial statements and regulatory reports. Because of its significance, each institution has a responsibility for developing, maintaining and documenting a comprehensive, systematic, and consistently applied process appropriate to its size and the nature, scope, and risk of its lending activities for determining the amounts of the ALLL and the provision for loan and lease losses. To fulfill this responsibility, each institution should ensure controls are in place to consistently determine the ALLL in accordance with GAAP, the institution's stated policies and procedures, management's best judgment and relevant supervisory guidance.

Consistent with longstanding supervisory guidance, institutions must maintain an ALLL at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in

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the remainder of the loan and lease portfolio. Estimates of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. Arriving at an appropriate allowance involves a high degree of management judgment and results in a range of estimated losses. Accordingly, prudent, conservative, but not excessive, loan loss allowances that represent management's best estimate from within an acceptable range of estimated losses are appropriate.

In addition to the revised policy statement, the agencies are issuing 16 FAQs to assist institutions in complying with GAAP and the ALLL supervisory guidance.

The Interagency Policy Statement on the ALLL and the FAQs are attached http://www.ncua.gov/GuidesManuals/accounting_bulletins/2006/06-01ALLL.pdf

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