
Adequacy of Valuation Allowances

Questionnaire

Yes No

GENERAL QUESTIONNAIRE

Review the association's internal controls and policies and procedures that relate to the determination of the adequacy of valuation allowances. These policies and procedures should be documented in a complete and concise manner and should include, where appropriate, narrative descriptions, copies of forms used, and other pertinent information.

Valuation Allowance Policies and Methodology

- | | | | |
|----|---|--------------------------|--------------------------|
| 1. | Has the board of directors, consistent with its duties and responsibilities, adopted written valuation allowance policies? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. | Does the board of directors review/approve the policies at least annually? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. | Do the institution's policies: | | |
| | • Address all asset types, including binding commitments to lend and off-balance sheet credit instruments? | <input type="checkbox"/> | <input type="checkbox"/> |
| | • Require that the ALLL be reviewed for adequacy at least quarterly? | <input type="checkbox"/> | <input type="checkbox"/> |
| | • Require that the ALLL allocated to loan and lease losses, including binding commitments to lend and off-balance sheet credit instruments, should be no less than the sum of the following items as of the evaluation date (after deduction of all portions of the portfolio classified Loss): | | |
| | — for loans and leases classified Substandard or Doubtful, whether analyzed and provided for individually or as part of pools, all estimated credit losses over the remaining effective lives of these assets? | <input type="checkbox"/> | <input type="checkbox"/> |
| | — for components of the loan and lease portfolios are not classified, all estimated credit losses over the following 12 months? | <input type="checkbox"/> | <input type="checkbox"/> |
| | • Provide for a conservative analysis such that the overall ALLL reflects a margin for the imprecision inherent in estimates of expected credit losses? | <input type="checkbox"/> | <input type="checkbox"/> |
| | • Provide a complete description of the methodologies used for each portfolio type, including (but not limited to) the following information, accompanied by supporting documentation: | | |
| | — The calculations used and how the factors are derived? | <input type="checkbox"/> | <input type="checkbox"/> |

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— The number of years' data and the date of the information included in the analysis?	<input type="checkbox"/>	<input type="checkbox"/>
— Complete descriptions/definitions of items used in the analysis?	<input type="checkbox"/>	<input type="checkbox"/>
— The stratification of assets and the rationale for the stratification?	<input type="checkbox"/>	<input type="checkbox"/>
— The reliability of the data used?	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the institution's ALLL methodology give adequate consideration to:		
• Past loss experience and other pertinent historical data?	<input type="checkbox"/>	<input type="checkbox"/>
• Assessment of the effectiveness of lending policies and procedures?	<input type="checkbox"/>	<input type="checkbox"/>
• Identification, on an individual loan basis, of significant potential weaknesses within the portfolio and an estimate of loss?	<input type="checkbox"/>	<input type="checkbox"/>
• Changes in the character of the portfolio?	<input type="checkbox"/>	<input type="checkbox"/>
• Current economic conditions and trends?	<input type="checkbox"/>	<input type="checkbox"/>
• Amount of past-due loans on which interest is not collected in accordance with the terms of the loans, and loans whose terms have been modified by reduced interest rates or deferred payments?	<input type="checkbox"/>	<input type="checkbox"/>
• Other information appropriate to the circumstances (if so, explain briefly)?	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the institution's ALLL methodology consider the level, severity, and trend of classified assets, delinquent and nonaccrual loans, real estate owned, and other problem assets?	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the institution's ALLL methodology appropriately track credit losses by segmenting the portfolios as appropriate for the institution (for example, by asset classification, collateral type and geographic location, loan-to-value ratios, year of origination, loan officer, product type, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>
Is adequate supporting documentation maintained?	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the institution's ALLL methodology consider any additional risk of loss due to concentrations of credit?	<input type="checkbox"/>	<input type="checkbox"/>

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8. Does the institution's ALLL methodology require an adjustment to the ALLL to reflect economic conditions and trends, and describe how adjustments for these factors are quantified?	<input type="checkbox"/>	<input type="checkbox"/>
9. Does the institution's ALLL methodology consider applicable qualitative factors such as the adequacy of the Internal Asset Review (IAR) system and lending policies and procedures, etc. and ascribe quantifiable measurements to these factors?	<input type="checkbox"/>	<input type="checkbox"/>
10. Does the institution's ALLL methodology consider:		
• changes in national and local economic and business conditions;	<input type="checkbox"/>	<input type="checkbox"/>
• changes in the nature and volume of the portfolio;	<input type="checkbox"/>	<input type="checkbox"/>
• changes in the experience, ability, and depth of lending management and staff;	<input type="checkbox"/>	<input type="checkbox"/>
• the effect of external factors such as competition; and	<input type="checkbox"/>	<input type="checkbox"/>
• legal and regulatory requirements on the level of estimated credit losses?	<input type="checkbox"/>	<input type="checkbox"/>
11. Are all general and specific valuation allowances and charge-offs reviewed and approved by the board of directors as evidenced by the minutes of board meetings?	<input type="checkbox"/>	<input type="checkbox"/>
12. Does management review the adequacy of the allowance and make necessary adjustments before Thrift Financial Reports and public financial statements are prepared (at a minimum, on a quarterly basis)?	<input type="checkbox"/>	<input type="checkbox"/>
13. Does management retain documentation of its review?	<input type="checkbox"/>	<input type="checkbox"/>
14. Is accrued interest on loans charged off also charged off against the allowance account or reversed against interest income, as appropriate?	<input type="checkbox"/>	<input type="checkbox"/>

Charge-Offs

15. Does management provide accurate charge-off reports to the board of directors for their review and approval?	<input type="checkbox"/>	<input type="checkbox"/>
16. Are collection efforts continued for assets charged off until the potential for recovery is fully exhausted?	<input type="checkbox"/>	<input type="checkbox"/>
17. Are periodic progress reports prepared and reviewed by appropriate management personnel for all assets charged off for which collection efforts continue?	<input type="checkbox"/>	<input type="checkbox"/>
18. Are adequate internal control procedures in effect to safeguard and properly record funds received as recoveries?	<input type="checkbox"/>	<input type="checkbox"/>

