

NCUA Accounting Bulletin

NO. 06-01

DATE: December 2006

PURPOSE. To distribute an interagency advisory (the Advisory) addressing the allowance for loan and lease losses (ALLL) that reiterates key concepts and requirements included in generally accepted accounting principles (GAAP) and existing ALLL supervisory guidance. This Advisory updates a 1993 policy statement issued by the banking agencies that described the responsibilities of the boards of directors and management of banks and savings associations and of examiners regarding the ALLL. This revision replaces the 1993 policy statement and it also applies to credit unions. In addition, the agencies are issuing the attached frequently asked questions (FAQs) to assist institutions in complying with GAAP and ALLL supervisory guidance.

APPLICABILITY. This policy statement applies to all credit unions supervised by the National Credit Union Administration (NCUA) and insured by the National Credit Union Share Insurance Fund (NCUSIF).

POLICY. Enclosed Joint Interagency Policy Statement and FAQ document.

BACKGROUND. The National Credit Union Administration is joining the other four federal financial institution regulatory agencies in issuing guidance reiterating key concepts and requirements included in GAAP and existing ALLL supervisory guidance.

In May 2002, the NCUA Board issued Interpretative Ruling and Policy Statement 02-3, *Allowance for Loan and Lease Losses Methodologies and Documentation for Federally Insured Credit Unions* (NCUA's 2002 IRPS). It was designed to assist credit unions in establishing a sound process for determining an appropriate ALLL and documenting that process in accordance with GAAP.¹

In March 2004, the NCUA along with the banking agencies issued an *Update on Accounting for Loan and Lease Losses*.² This guidance provided reminders of longstanding supervisory

¹ Comparable guidance was issued In July 2001 by the banking agencies in a Policy Statement on *Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions* (2001 Policy Statement). The 2001 Policy Statement and the 2002 NCUA IRPS are available on the agencies' Web sites, <http://www.ncua.gov/RegulationsOpinionsLaws/IRPS/2002/IRPS02-3.html>. In addition, the SEC staff issued parallel guidance in July 2001 in Staff Accounting Bulletin No. 102 – *Selected Loan Loss Allowance Methodology and Documentation Issues*, which is available on the SEC's Web site.

² http://www.ncua.gov/GuidesManuals/accounting_bulletins/CombinedALLLAdvisory.pdf.

guidance as well as a listing of the existing allowance guidance that credit unions should continue to apply.

The enclosed Advisory and the enclosed FAQ should assist credit unions and examiners and further supplement existing supervisory guidance.

EFFECTIVE DATE. Although the revised policy statement reiterates key concepts and requirements in GAAP and existing supervisory guidance on the ALLL, the agencies recognize that institutions may not have sufficient time to complete any enhancements needed to bring their ALLL processes and documentation into full compliance with the revised guidance for year-end 2006 reporting purposes. Nevertheless, these enhancements should be completed in the near term.

EXPIRATION DATE. This Bulletin will expire when superseded or when the Advisory is incorporated in agency Manuals.

/s/

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Office of Examination and Insurance

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