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## ALLOWANCE FOR LOAN AND LEASE LOSSES

FIL-60-2000

September 7, 2000

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Proposed Policy Statement on Allowance for Loan and Lease Losses (ALLL)  
Methodologies and Documentation for Banks and Savings Institutions*

The four federal banking agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), have proposed the attached "Policy Statement on Allowance for Loan and Lease Losses (ALLL) Methodologies and Documentation for Banks and Savings Institutions." The four banking agencies -- the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) -- are seeking comment on this FFIEC proposal. Comments on the proposed policy statement should be submitted to the FFIEC by November 6, 2000.

The proposal, developed in consultation with Securities and Exchange Commission staff, provides guidance on the design and implementation of significant aspects of ALLL methodologies and supporting documentation practices.

Specifically, the proposal:

- Clarifies that the board of directors of each institution is responsible for ensuring that controls are in place to determine the appropriate level of the ALLL;
- States that the ALLL process must be thorough, disciplined and consistently applied, and must incorporate management's current judgments about the credit quality of the loan portfolio;
- Emphasizes the banking agencies' long-standing position that institutions should maintain and support the ALLL with documentation that is consistent with their stated policies and procedures, generally accepted accounting principles (GAAP) and applicable supervisory guidance; and
- Provides guidance on maintaining and documenting policies and procedures that are appropriately tailored to the size and complexity of the institution and its loan portfolio.

The proposal includes illustrations of implementation practices that institutions may find useful for enhancing their own ALLL processes; an appendix that provides examples of certain key aspects of ALLL guidance; a summary of applicable GAAP guidance; and a bibliographical list of relevant GAAP guidance, joint interagency statements and other literature on ALLL issues.

The proposal is not intended to change existing accounting guidance in, or modify the documentation requirements of, GAAP or guidance provided in the relevant joint interagency statements.

The proposed policy statement is discussed in the September 7, 2000, *Federal Register* on pages 54268-54276. Attached is a reformatted version of the *Federal Register* notice.

For further information about the proposed policy statement, please contact Linda V. Griffith at the Federal Reserve Board (202-452-3506), Carol L. Liquori at the FDIC (202-898-7289), Louise A. Francis at the OCC (202-874-1306), or Harrison E. Greene, Jr. at the OTS (202-906-7933).

Keith J. Todd  
Executive Secretary

Attachments: **Federal Register, September 7, 2000, pages 54268-54276**

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**Federal Financial Institutions Examination Council**

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