NCUA Accounting Bulletin

NO. 12-1

DATE: January 2012

**SENT VIA ELECTRONIC MAIL**

**PURPOSE.** The enclosed Interagency Supervisory Guidance specifically addresses junior lien loans and lines of credit secured by 1-4 family residential properties (junior liens). However, core principles are universal and should be applied across all product lines.

**APPLICABILITY**. This supervisory guidance 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**. Please refer to the enclosed Interagency Supervisory Guidance. The guidance specifically addresses junior lien loans and lines of credit; however, the guidance contains principles that apply to estimating the ALLL for all types of loans. The guidance identifies key concepts included in generally accepted accounting principles (GAAP) and existing ALLL supervisory guidance. Institutions are reminded to follow appropriate risk management principles in managing junior lien loans and lines of credit, including the May 2005 *Interagency Credit Risk Management Guidance for Home Equity Lending* transmitted by Letter to Credit Unions No. 05-CU-07, and the *2006 Interagency ALLL Policy Statement* transmitted by Accounting Bulletin 06-1.

**BACKGROUND.** Amidst continued uncertainty in the economy and the housing market, federally regulated financial institutions are reminded to monitor all credit quality indicators relevant to their junior lien loan and line of credit portfolio consistent with the credit union's complexity and exposure to credit risk. This policy statement is consistent with previously issued guidance.

The *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (IPS), transmitted in December 2006 by Accounting Bulletin 06-1 states: "*Estimates of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date.*"

The *2005 Interagency Credit Risk Management Guidance for Home Equity Lending* states: "*Financial institutions should establish an appropriate ALLL and hold capital commensurate with the riskiness of portfolios. In determining the ALLL adequacy, an institution should consider how the interest-only and draw features of HELOCs during the lines' revolving period could affect the loss curves for the HELOC portfolio. Those institutions engaging in programmatic subprime home equity lending or institutions that have higher risk products* *are expected to recognize the elevated risk of the activity when assessing capital and ALLL adequacy.*"

**EFFECTIVE DATE.** The supervisory guidance is effective upon issuance.

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

Larry Fazio

Director Larry Fazio
Office of Examination and Insurance

Enclosure

Distribution: C
All FCUs
All FISCUs
All State Supervisory Authorities (2)
Leagues and Trades (2)
Express Email
E-Library