

January 23, 2003

Mark Herter, President/CEO  
FIG Federal Credit Union  
Post Office Box 36911  
Los Angeles, CA 90036

Re: Loss Reserves for Member Business Loans (MBLs).

Dear Mr. Herter:

This letter is in further response to your letter to Julie Starnes, dated December 6, 2002, about properly reserving for potential MBL losses under the standards set in the MBL rule. 12 C.F.R. §723.15. As NCUA Board Vice Chair JoAnn Johnson indicated in her letter of December 19, 2002, your comments are being considered by her internal working group on member business lending. Vice Chair Johnson asked that I follow up with respect to your concerns about loan loss reserves.

In your letter, you stated that the MBL rule's sections on reserving for loan losses are out-of-date and fail to allow credit unions to consider a borrower's ability to repay, the collectibility of the loan, and the disposition of collateral. These concerns should be alleviated by the fact that NCUA has already determined that the reserve provisions in the rule, §§723.15 and 723.16, are not consistent with the NCUA Board's Interpretive Ruling and Policy Statement on Allowance for Loan and Lease Losses (ALLL) Methodologies and Documentation for Federally-Insured Credit Unions (IRPS 02-3). 67 Fed. Reg. 37445 (May 29, 2002). IRPS 02-3 supercedes the regulatory provisions that concern you and we expect the Board to remove these provisions from the MBL rule during its next MBL rulemaking.

IRPS 02-3 provides federally-insured credit unions (FICUs) guidance on the design and implementation of ALLL methodologies and supporting documentation practices consistent with existing GAAP. Unlike the MBL rule, IRPS 02-3 recognizes that FICUs should adopt methodologies and documentation practices appropriate for their size and complexity and allows them to consider the value of collateral in determining the appropriate loss reserve.

Sincerely,

Robert M. Fenner  
General Counsel

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