



**Federal Deposit Insurance Corporation**  
550 17th Street, NW, Washington, D.C. 20429-9990

**Financial Institution Letter**  
**FIL-105-2006**  
**December 13, 2006**

## **ALLOWANCE FOR LOAN AND LEASE LOSSES**

### **Revised Policy Statement and Frequently Asked Questions**

**Summary:** The federal financial institution regulatory agencies are issuing the attached revised Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL) and supplemental Frequently Asked Questions (FAQs). The policy statement revises and replaces the banking agencies' 1993 policy statement on the ALLL.

**Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

**Suggested Routing:**

Chief Executive Officer  
Chief Financial Officer  
Chief Lending Officer  
Board of Directors

**Related Topic:**

Policy Statement on ALLL Methodologies and Documentation for Banks and Savings Institutions

**Attachments:**

"Interagency Policy Statement on the Allowance for Loan and Lease Losses"  
"Questions and Answers on Accounting for Loan and Lease Losses"

**Contact:**

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**Note:**

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at [www.fdic.gov/news/news/financial/2006/index.html](http://www.fdic.gov/news/news/financial/2006/index.html).

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**Highlights:**

- An institution must maintain an ALLL at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. An assessment of the appropriateness of the ALLL is critical to an institution's safety and soundness.
- In light of ALLL-related developments since the policy statement was first adopted in 1993, the agencies have revised the policy to ensure consistency with generally accepted accounting principles (GAAP) and more recent supervisory guidance. The agencies also are issuing 16 FAQs to assist institutions in complying with GAAP and ALLL supervisory guidance.
- The revised policy statement updates the previous guidance that describes the responsibilities of the boards of directors, management, and bank examiners regarding the ALLL; factors to be considered in the estimation of the ALLL; and the objectives and elements of an effective loan review system, including a sound credit grading system.
- Although the revised policy statement reiterates key concepts and requirements in GAAP and ALLL supervisory guidance, 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.