FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

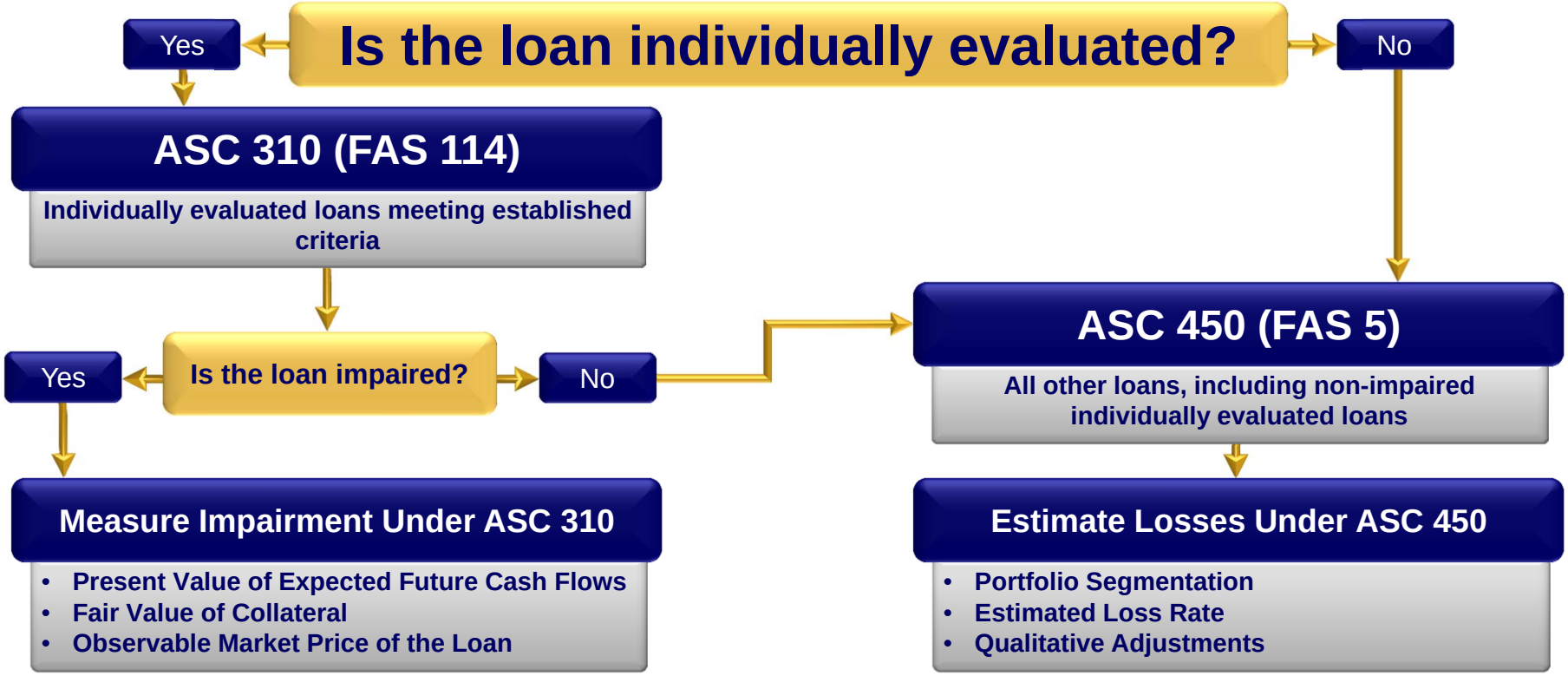
Allowance for Loan and Lease Losses

VI. Review & Resources

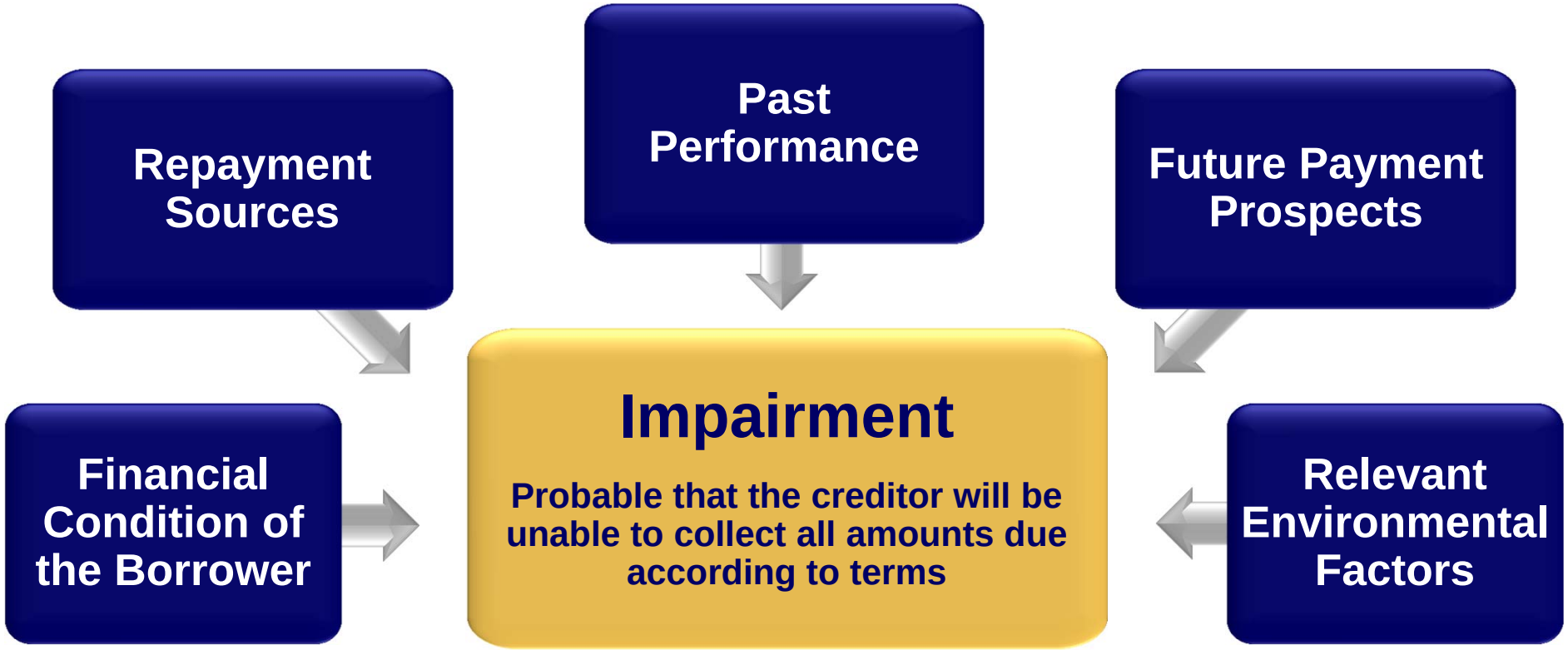
Policy Statements Overview

- **2001 and 2006 Interagency Policy Statements**
  - Board and Management responsibilities
  - Conformance with GAAP
  - Proper documentation
- **Directional Consistency**
  - Changes in ALLL should be consistent with changes in risk
- **Peer Comparison**
  - Helps identify outliers

ALLL Decision Tree



Impairment Decision - Factors



Measuring Impairment Under ASC 310

Methods for Measuring Impairment

- Present Value of Expected Future Cash Flows
  - Appropriate Method (unless collateral dependent)
  - Reasonable and Well-Supported Assumptions
- Fair Value of Collateral
  - Required for Collateral Dependent Loans
  - Solely Dependent on Collateral for Repayment
- Observable Market Price
  - Seldom Used by Banks

Measured Impairment Should Rarely Equal Zero

Estimating Credit Losses Under ASC 450

- **Segment the Portfolio**
  - Loan Type, Risk Rating, Past Due Status, Other Risk Factors
- **Calculate Historical Loss Rates**
  - Portfolio Loss History
  - Loss Migration
  - Probability of Default / Loss Given Default
- **Apply Qualitative Factors**

Loss Migration Analysis

- **Utilizes Changes in Loan Grades to Provide an Estimate of Losses**
- **Four-Step Process**
  - Segment the Portfolio
  - Calculate the Point-in-Time Loss Rate
  - Repeat the Calculation for the Look-Back Period
  - Calculate the Weighted Loss Rate

Resources

- **Directors' Resource Center:**
  - www.fdic.gov/resourcecenter
- **Additional Video Presentations**
  - Troubled Debt Restructuring
- **Tabletop Exercises Document**

Resources

- **Outstanding Guidance**
  - Policy Statement on ALLL Methodologies and Documentation for Banks and Savings Institutions - (issued July 2001)
  - Interagency Policy Statement on the ALLL - (issued December 2006)

- **Regional Accounting Specialists**

- **Mailbox: supervision@fdic.gov**