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This document and any attachments are replaced by version 1.0 of the "Sampling Methodologies" booklet published May 2020.

SAMPLING TERMINOLOGY

Sampling Terms

Homogeneous Assets: For purposes of this Section, homogeneous assets are one-to four-family residential real estate loans, home improvement loans, home equity loans, owner-occupied mobile home loans, amortizing residential property loans, consumer installment loans and leases, credit card balances, personal overdrafts, and loans on deposits.

Nonhomogeneous Assets: For purposes of this Section, nonhomogeneous assets are considered to be commercial real estate, commercial, and construction loans; private placement, nonrated, and below-investment-grade municipal and corporate securities; and other loans and investments (other than homogenous assets, cash, high-quality government securities and high-quality mortgage-backed securities).

Exception: (1) For purposes of sampling an IAR program, an exception occurs when the regulator's classification of an asset is one or more classifications lower than an institution's classification. "Classifications" for purposes of this Handbook Section are: Pass; Special Mention; Substandard; Doubtful; and Loss.

For assets with split classifications, where both the regulator and institution have a split classification but of differing amounts, the regulator must consider the materiality of the difference and the methodology used by the institution to determine if the difference is material. For example, if an asset is divided between Substandard and Loss, with the institution indicating a 90/10 split and the regulator indicating an 80/20 split, the regulator should review the methodology the institution used to determine the Loss amount. If the institution's methodology is acceptable, then the classification difference is not an exception.

Note: Differences in classification due to timing (e.g., where the regulator is using more current information than was available to the institution when it last reviewed an asset) should not be considered an exception (except if an institution exhibits a pattern of not considering, on a timely basis, new information). Also, no exception should be noted if the institution's classification is more conservative than the regulator's classification.

(2) For purposes of reviewing homogeneous assets, an exception is any asset not underwritten in a prudent, safe and sound fashion. For determining whether an asset is underwritten in a prudent fashion, you should focus on the overall quality of the asset, not on documentation. An exception should only be noted if it is significant.

- For a homogeneous asset that was originated or purchased by the institution since the last examination that included a review of the institution's asset portfolio, you should review the loan file and other relevant information to determine whether sound underwriting standards were followed for the asset to determine if the asset is an "exception" for purposes of this Section.

- For a homogeneous asset that was originated or purchased by the institution prior to the last examination that included a review of the institution's asset portfolio, the review should initially focus on the payment history of the asset. If the asset has generally remained current, it should not be deemed an exception. For assets that have a history of being delinquent (i.e., 90 or more days past due), you should undertake a review of the asset to determine whether sound underwriting standards were followed when the loan was made or the asset was acquired. If sound underwriting standards were not followed, the asset should be considered an "exception" for purposes of this Section.

Note: Apply the review standards established above for newer homogeneous assets to older assets (i.e., initially undertake a file review and assess the underwriting of the asset, rather than initially focusing on the payment history) to determine if the asset is an exception.

Materiality: An item is material if its inclusion or omission would change or influence the judgment of a reasonable person. An item is immaterial if its inclusion or omission would have no effect on your analysis and the outcome of the examination and related supervision. Materiality may vary both with relative amount or quality (the amount or quality of an item compared to other items) and with relative importance (the nature of the item itself). You must use good judgment and professional expertise in determining materiality.

Random Starting Point: A random starting point is the first asset picked from a population for review. You should select the starting point so as to eliminate predictability in the sample selection. The number may be obtained from a random number table, the serial number of a dollar bill, or other appropriate source. The number denotes the first item included in the sample and the place from which the established route starts (e.g., every 29th loan). This starting point should be either less than or equal to the "interval" (either monetary or numerical), i.e., if you review every 29th loan, the starting point should be selected randomly from one of the first 29 loans.