Guidance on Loan Loss Reserves Released by OCC

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) today released a new Comptroller's Handbook section, Allowance for Loan and Lease Losses (ALLL). The new booklet provides examiner guidance on reviewing how national banks establish reserves against probable losses on loans and leases and identifies the kinds of risks banks may incur in this process.

Maintenance of an adequate ALLL is an integral part of a bank's process for managing the credit risk in its loan and lease portfolio. Establishing and maintaining an appropriate ALLL involves compliance risk, because a significantly misstated ALLL misrepresents both the earnings and the condition of the bank and would constitute a violation of requirements that national banks file accurate reports of condition. The level and trends in the ALLL balance are routinely tracked by financial analysts, and adverse trends in the allowance level could subject a bank to unfavorable commentary, a form of reputation risk.

The last changes to the OCC's ALLL examination procedures were made in 1992. This handbook section consolidates a variety of ALLL-related materials and identifies the specific categories of risk connected with a bank's ALLL. It makes no changes in basic examination objectives and procedures.

All national banks, OCC examiners, and subscribers to the Comptroller's Handbook will receive a copy of the Allowance for Loan and Lease Losses booklet. To obtain a copy of this new booklet, send a written request along with a check for $15 to the Office of the Comptroller of the Currency, P.O. Box 70004, Chicago, IL 60673-0004.

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The OCC charters, regulates and examines approximately 2,800 national banks and 70 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure the safety and soundness of the national banking system.