

# RESCINDED

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Outdated

## Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions: ALLL Methodologies and Documentation

To

Chief Executive Officers of All National Banks, Department and Division Heads, All Examining Personnel and Other Interested Parties

The guidance attached to this bulletin continues to apply to federal savings associations.

On July 6, the Federal Financial Institutions Examination Council issued the attached guidance entitled, "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings

Institutions." Developed in collaboration with the Securities and Exchange Commission, the policy statement clarifies the agencies' expectations and provides guidance regarding methodologies and documentation support for the ALLL.

The policy statement does not change the guidance in GAAP, previous joint interagency statements or the consultation provisions between the SEC and the banking agencies included in Section 241 of the Gramm–Leach–Bliley Act. In this regard, it recognizes that:

- Arriving at an appropriate allowance involves a high degree of management judgment, is inevitably imprecise, and results in a range of estimated losses.
- Prudent and conservative, but not excessive, loan loss allowances that fall within an acceptable range of estimated losses are appropriate.
- Allowance estimates should be based on a comprehensive, well-documented, and consistently applied analysis of the loan portfolio, and should take into consideration all available information existing as of the financial statement date, including environmental factors such as industry, geographical, economic, and political factors.
- An "unallocated" loan loss allowance is appropriate when it reflects an estimate of probable losses, determined in accordance with GAAP, and is properly supported.

Financial institutions should find that this guidance not only improves their ALLL process, but also helps safeguard against regulatory criticism regarding the ALLL. Also, while the guidance applies to all banks, it recognizes that smaller institutions need only adopt methodologies and documentation practices that are appropriate for their size and complexity. For institutions with fewer and less complex lending operations and

products, the amount of supporting documentation for all the ALLL may be less comprehensive than for more complex situations. Several examples are provided in the guidance.

For more information, contact Richard Shack, senior accountant, or Louise Francis, national bank examiner at (202) 649-6280.

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## Related Links

- [Policy Statement 66 FR 35629](#)

Topic(s): ■ [ACCOUNTING](#) ■ [ALLOWANCE FOR LOAN & LEASE LOSSES \(ALLL\) ACCOUNTING](#)

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