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Adequacy of Valuation Allowances

Questionnaire

This document and any attachments are superseded by the Comptroller's Handbook - Internal Control Questionnaires and Verification Procedures.

Yes No

GENERAL QUESTIONNAIRE

Review the association's internal controls and policies and procedures that relate to the determination of the adequacy of valuation allowances. These policies and procedures should be documented in a complete and concise manner and should include, where appropriate, narrative descriptions, copies of forms used, and other pertinent information.

Valuation Allowance Policies and Methodology

1. Has the board of directors, consistent with its duties and responsibilities, adopted written valuation allowance policies? ☐ ☐

2. Does the board of directors review/approve the policies at least annually? ☐ ☐

3. Do the institution's policies:

   - Address all asset types, including binding commitments to lend and off-balance sheet credit instruments? ☐ ☐
   - Require that the ALLL be reviewed for adequacy at least quarterly? ☐ ☐
   - Require that the ALLL allocated to loan and lease losses, including binding commitments to lend and off-balance sheet credit instruments, should be no less than the sum of the following items as of the evaluation date (after deduction of all portions of the portfolio classified Loss):
     - — for loans and leases classified Substandard or Doubtful, whether analyzed and provided for individually or as part of pools, all estimated credit losses over the remaining effective lives of these assets? ☐ ☐
     - — for components of the loan and lease portfolios are not classified, all estimated credit losses over the following 12 months? ☐ ☐
   - Provide for a conservative analysis such that the overall ALLL reflects a margin for the imprecision inherent in estimates of expected credit losses? ☐ ☐
   - Provide a complete description of the methodologies used for each portfolio type, including (but not limited to) the following information, accompanied by supporting documentation:
     - — The calculations used and how the factors are derived? ☐ ☐

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	Yes	No
— The number of years' data and the date of the information included in the analysis?	☐	☐
— Complete descriptions/definitions of items used in the analysis?	☐	☐
— The stratification of assets and the rationale for the stratification?	☐	☐
— The reliability of the data used?	☐	☐
4. Does the institution's ALLL methodology give adequate consideration to:		
• Past loss experience and other pertinent historical data?	☐	☐
• Assessment of the effectiveness of lending policies and procedures?	☐	☐
• Identification, on an individual loan basis, of significant potential weaknesses within the portfolio and an estimate of loss?	☐	☐
• Changes in the character of the portfolio?	☐	☐
• Current economic conditions and trends?	☐	☐
• Amount of past-due loans on which interest is not collected in accordance with the terms of the loans, and loans whose terms have been modified by reduced interest rates or deferred payments?	☐	☐
• Other information appropriate to the circumstances (if so, explain briefly)?	☐	☐
5. Does the institution's ALLL methodology consider the level, severity, and trend of classified assets, delinquent and nonaccrual loans, real estate owned, and other problem assets?	☐	☐
6. Does the institution's ALLL methodology appropriately track credit losses by segmenting the portfolios as appropriate for the institution (for example, by asset classification, collateral type and geographic location, loan-to-value ratios, year of origination, loan officer, product type, etc.)?	☐	☐
Is adequate supporting documentation maintained?	☐	☐
7. Does the institution's ALLL methodology consider any additional risk of loss due to concentrations of credit?	☐	☐

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		Yes	No
8.	Does the institution's ALLL methodology require an adjustment to the ALLL to reflect economic conditions and trends, and describe how adjustments for these factors are quantified?	☐	☐
9.	Does the institution's ALLL methodology consider applicable qualitative factors such as the adequacy of the Internal Asset Review (IAR) system and lending policies and procedures, etc. and ascribe quantifiable measurements to these factors?	☐	☐
10.	Does the institution's ALLL methodology consider:		
	• changes in national and local economic and business conditions;	☐	☐
	• changes in the nature and volume of the portfolio;	☐	☐
	• changes in the experience, ability, and depth of lending management and staff;	☐	☐
	• the effect of external factors such as competition; and	☐	☐
	• legal and regulatory requirements on the level of estimated credit losses?	☐	☐
11.	Are all general and specific valuation allowances and charge-offs reviewed and approved by the board of directors as evidenced by the minutes of board meetings?	☐	☐
12.	Does management review the adequacy of the allowance and make necessary adjustments before Thrift Financial Reports and public financial statements are prepared (at a minimum, on a quarterly basis)?	☐	☐
13.	Does management retain documentation of its review?	☐	☐
14.	Is accrued interest on loans charged off also charged off against the allowance account or reversed against interest income, as appropriate?	☐	☐

Charge-Offs

		Yes	No
15.	Does management provide accurate charge-off reports to the board of directors for their review and approval?	☐	☐
16.	Are collection efforts continued for assets charged off until the potential for recovery is fully exhausted?	☐	☐
17.	Are periodic progress reports prepared and reviewed by appropriate management personnel for all assets charged off for which collection efforts continue?	☐	☐
18.	Are adequate internal control procedures in effect to safeguard and properly record funds received as recoveries?	☐	☐

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	Yes	No
19. Is the preparation and posting of any subsidiary records of assets charged off performed or reviewed by persons who do not also:		
• Issue checks and drafts?	☐	☐
• Handle cash?	☐	☐
20. Are notes for loans charged off maintained under dual custody?	☐	☐
21. Are collectors rotated so that they do not work on the same accounts over an extended period?	☐	☐

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COMMENTS

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