FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Uniform Retail Credit Classification Policy

AGENCY: Federal Financial Institutions Examination Council.

ACTION: Notice and request for comment.

SUMMARY: The Federal Financial Institutions Examination Council (FFIEC), on behalf of the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS), collectively referred to as the Agencies, requests comment on proposed changes to the Uniform Policy for Classification of Consumer Installment Credit Based on Delinquency Status (Uniform Retail Credit Classification Policy). The National Credit Union Administration (NCUA), also a member of FFIEC, is reviewing the applicability and appropriateness of the FFIEC proposal for institutions supervised by the NCUA; however, the NCUA does not plan to adopt the proposed policy at this time.

The Uniform Retail Credit Classification Policy is a supervisory policy used by the federal regulatory agencies for the uniform classification of retail credit loans of financial institutions. At the time the initial Uniform Retail Credit Classification Policy was issued in 1980, open-end credit generally consisted of credit card accounts with small credit lines to the most creditworthy borrowers. Today, open-end credit generally includes accounts with much larger lines of credit to diverse borrowers with a variety of risk levels. The change in the nature of those accounts and the inconsistencies in the reporting and charging off of accounts has raised concerns with the FFIEC. This proposed policy statement is intended to help the FFIEC develop a revised classification policy to more accurately reflect the changing nature of risk in today's retail credit environment. The FFIEC is proposing to revise the charge-off policy for closed-end and open-end credit and address other significant issues in retail credit lending by the financial services industry. The FFIEC is requesting comment on the proposed revision and the listed issues.

DATES: Comments must be received by September 4, 1998.

ADDRESSES: Comments should be sent to Keith Todd, Acting Executive Secretary, Federal Financial Institutions Examination Council, 2100 Pennsylvania Avenue NW., Suite 200, Washington, DC 20037, or by facsimile transmission to (202) 634–6556.

FOR FURTHER INFORMATION CONTACT:

FRB: William Coen, Supervisory Financial Analyst, (202) 452–5219, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), Dorothea Thompson, (202) 452-3544, Board of Governors of the Federal Reserve System, 20th and C Streets NW., Washington, DC 20551.

FDIC: James Leitner, Examination Specialist, (202) 898–6790, Division of Supervision. For legal issues, Michael Phillips, Counsel, (202) 898–3581, Supervision and Legislation Branch, Federal Deposit Insurance Corporation, 550 17th Street NW., Washington, DC 20429.

OCC: Cathy Young, National Bank Examiner, Credit Risk Division, (202) 874–4474, or Ron Shimabukuro, Senior Attorney, Legislative and Regulatory Activities Division (202) 874–5090, Office of the Comptroller of the Currency, 250 E Street SW., Washington, DC 20219.

OTS: William J. Magrini, Senior Project Manager, (202) 906–5744, Supervision Policy; or Vern McKinley, Attorney, (202) 906–6241, Regulations and Legislation Division, Chief Counsel's Office, Office of Thrift Supervision, 1700 G Street NW, Washington, DC 20552.

SUPPLEMENTARY INFORMATION:

Background Information

On June 30, 1980, the FRB, FDIC, and OCC adopted the FFIEC uniform policy for classification of open-end and closed-end credit (1980 policy). The Federal Home Loan Bank Board, the predecessor of the OTS, adopted the 1980 policy in 1987. The 1980 policy established uniform guidelines for the classification of installment credit based on delinquency status and provided different charge-off time frames for open-end and closed-end credit. The 1980 policy recognized the statistical validity of determining losses based on past due status. At that time, open-end credit generally consisted of credit card accounts with small credit lines to the most creditworthy borrowers. Today, open-end credit generally includes accounts with much larger lines of credit to diverse borrowers with a variety of credit risk levels. The change in the nature of those accounts and the inconsistencies in the reporting and charging off of accounts by financial institutions, has prompted the federal regulatory agencies to propose several revisions to the 1980 policy.

Comments Received

The FFIEC requested comment on September 12, 1997 at 62 FR 48089 (September Notice) on a series of questions designed to help the FFIEC develop a revised classification policy. A total of 61 comments were received representing the views of 22 banks and thrifts, nine bank holding companies, eight regulatory agencies, seven trade groups, and 15 other companies and individuals. The following is a summary of the questions and responses.

1. Charge-off Policy for Open-End and Closed-End Credit

The September Notice requested comment on whether a uniform time frame should be used to charge off both open-end and closed-end accounts, and if a change in policy is made, a reasonable time frame to allow institutions to comply with such a change. Comments were also sought on whether to continue the current regulatory practice of classifying open-end and closed-end credit Substandard when the account is 90 days or more delinquent; whether a standard for the Doubtful classification or guidance for placing loans on a nonaccrual status should be adopted; and whether a specific reserve account should be established.

Charge off policy: Commenters were divided on whether to maintain the current policy of charging off open-end (credit card) loans at 180 days delinquent and closed-end installment loans at 120 days or to change the policy to a uniform time frame for both types of loans. Almost half of the commenters suggested a uniform charge-off time frame for both types of loans. Recommendations for the charge-off time frame varied from 90 days to 180 days; the majority who favored uniformity believed the time frame should be less than 180 days. Of 51 comments to this question, 22 commenters preferred a stricter open-end standard than what is contained in the 1980 policy and remaining respondents supported no change or a less strict open-end standard.

Commenters in favor of a uniform time frame cited three main reasons: (1) inconsistency in the 1980 policy guidelines; (2) recovery data supports a lengthening of the charge-off policy for closed-end installment loans; and (3) the level of credit risk in open-end and closed-end loans has changed since the 1980 policy was adopted.

Commenters supporting a uniform time frame cited the inconsistency between the level of risk associated with credit card loans and closed-end credit and the inconsistency in the 1980 policy for charging-off delinquent accounts. Under the 1980 policy, credit card loans, which generally are unsecured, are charged off when an account is 180 days delinquent. Conversely, closed-end credits generally amortize according to a payment schedule, are better protected via a security interest in collateral, and experience much higher recovery rates after being charged off, but are subject to a more stringent charge-off policy at 120 days delinquency. Over the years, the inconsistency in the time frames has become more apparent as the market for credit cards evolved. Several commenters stated that the risk associated with open-end credit has increased significantly since 1980. This is due to competition in solicitations, less stringent underwriting criteria, lower minimum payment requirements, lack of a security interest, and lower recovery rates after charge-off. Commenters contended that these factors provide support for shortening the current 180 day charge-off time frame for open-end credit.

A uniform time frame would eliminate the inconsistent treatment for closed-end and open-end credit. On a volume basis, the change would actually lengthen the charge-off time frame for more loans than it would shorten. As of year end 1997, institutions supervised by the FRB, FDIC, and OCC had closed-end installment loans of $338 billion and open-end credit card loans of $237 billion. At that time, institutions supervised by the OTS had closed-end installment loans of $29 billion and open-end loans totaling $23 billion. Under a uniform time frame, institutions would have an additional month to work with borrowers before recognizing a loss for lower risk closed-end credit. Credit card issuers would have this same 150-day charge-off time frame, although it would be 30 days less than the current requirement.

The most direct measure of credit risk is the ratio of net losses to loans. In every year since 1984, the credit card loss ratio has been much higher than the closed-end installment loss ratio. During the fourteen-year period, the average net loss for credit cards was 3.2 percent while the average net loss for installment loans was 0.8 percent. The percentage of current recoveries to prior year charge-offs is a ratio that indicates how timely loans are charged-off. A loss classification does not mean that the asset has absolutely no recovery or salvage value; rather, it means that it is not practical or desirable to defer writing off an essentially worthless asset even though partial recovery may occur in the future. A high rate of recoveries may illustrate a conservative charge-off policy, whereas a low rate may indicate an unwarranted delay in the recognition of losses. Since 1985, recoveries for credit card loans have averaged 19 percent, while recoveries for installment loans have averaged 34 percent.

Commenters opposed to any change of the charge-off standards cited four principal reasons: (1) the impact on the industry's earnings and capital; (2) the effect on credit card securitization transactions; (3) the limitation of programming resources because of Year 2000 issues; and (4) impact on consumers.

Some commenters believed that changing the charge-off guidelines for open-end credit may make it more difficult for lenders to collect from borrowers. They stated that a change in the guidelines will result in more expense for institutions, because of the need to revise their existing collection policies and procedures. This can negatively affect an institution's earnings and capital.

Others stated that a change in the charge-off time frames would affect credit card securitization transactions. One commenter mentioned that as of September 1997, $213 billion, or 40.6 percent of outstanding credit card receivables, were securitized. Some commenters believed that any change in the charge-off policy could trigger contractual provisions, such as early amortization or collateral substitution requirements. This would increase costs to credit card issuers and limit their ability to sell securitizations, thus potentially restricting credit card lending. Some commenters indicated that such a change may cause them to exit the securitization market for years.

Some commenters expressed concern about the re-programming efforts needed for a change in the charge-off policy. This comes at a time when computer programmer resources are limited due to Year 2000 efforts.

Finally, some commenters contended that requiring earlier charge offs will have an impact on consumers. The incentives for borrowers to pay and for banks to invest in collection efforts are greatest before the charge off has occurred. One industry association reported that 34 percent of accounts that are 120 days delinquent will be made current before charge off under the 1980 policy. A shorter charge-off time frame reduces the borrower's time to cure a debt. Once charge off occurs, the customer's charged-off account is reported to the credit bureau, further damaging the customer's credit rating and future ability to obtain credit. Commenters stated that the customer loses the incentive to pay, further impacting an institution's recoveries.

Given the division in comments as to the appropriate charge-off policy guidelines, the FFIEC is requesting comment on two alternative charge-off standards (only one of these will be implemented):

- A uniform charge-off time frame for both open-end and closed-end credit at 150 days delinquency with a proposed implementation date of January 1, 2001; or
- Retaining the existing policy of charging off delinquent closed-end loans at 120 days and delinquent open-end loans at 180 days. If this option is selected, any changes affected by the final policy statement would have a January 1, 1999 implementation date.

Substandard classification policy: Thirty-six of 41 commenters supported the practice of classifying open-end and closed-end loans Substandard at 90 days delinquency. The majority of commenters opposed a uniform policy of classifying loans Doubtful, placing them on nonaccrual, or setting up separate reserves in lieu of charging off a loan. The FFIEC has long felt that when an account is 90 days past due, it displays weaknesses warranting classification and proposes to continue the policy of classifying open-end and closed-end loans Substandard at 90 days delinquency. The FFIEC has decided not to add guidance for classifying retail credit Doubtful or placing those loans on nonaccrual.

2. Bankruptcy, Fraud, and Deceased Accounts

The September Notice requested comment on whether there should be separate guidance for determining: (i) when an account should be charged off for bankruptcies under Chapter 7 or 13 of the Federal Bankruptcy Code; (ii) the event in the bankruptcy process that should trigger loss recognition; (iii) the amount of time needed by an institution to charge off an account after the bankruptcy event; and (iv) whether, as an alternative to an immediate charge off, it would be beneficial to set up a specific reserve account. Comments also were sought on the amount of time needed by an institution to charge off losses due to fraud or losses on loans to deceased borrowers.

Bankruptcy: The majority of commenters, 26 of 40, stated that separate guidance should not be developed for bankruptcies under Chapter 7 or Chapter 13. Many

commenters stated that charge-off guidance recognizing bankruptcies arising from defaults on secured loans versus bankruptcies arising from defaults on unsecured is more realistic. The majority indicated that the notification date to the creditor from the bankruptcy court should constitute the event triggering loss recognition. The majority also did not believe it should be necessary to set up a separate allowance reserve at the time of the bankruptcy filing.

The FFIEC proposes to add guidance specifying that unsecured loans for which the borrower declared bankruptcy should be charged off by the end of the month that the creditor receives notification of filing from the bankruptcy court. In addition, secured loans in bankruptcy should be evaluated for repayment potential and classified appropriately, within 30 days of notification of filing from the bankruptcy court, or within the charge-off time frames in the classification policy, whichever is shorter.

The FFIEC is aware that Congress is in the process of addressing bankruptcy reform legislation. If legislation is passed, the FFIEC will review its proposed bankruptcy guidelines for any changes that may be necessary as a result of changes to the bankruptcy code.

Fraud: Commenters were divided equally with respect to the time required to charge off fraudulent loans, either 30 days or 90 days. The FFIEC recognized that a fraud investigation may last more than 30 days. For that reason, the FFIEC is proposing that fraudulent retail credit should be charged off within 90 days of discovery or within the charge-off time frames adopted in this classification policy, whichever is shorter.

Deceased Accounts: The majority of commenters reported that they needed 150 days to work with the trustee of an estate to determine the repayment potential of loans of deceased persons. The FFIEC recognizes that working with the trustee or the deceased family may take months to determine repayment potential. The FFIEC proposes that retail credit loans of deceased persons should be evaluated and charged off when the loss is determined, or within the charge-off time frames adopted in this classification policy, whichever is shorter.

3. Partial Payments

The September notice requested comment on whether borrowers should receive credit for partial payments in determining delinquency by giving credit for any payment received and if this would require significant computer programming changes. Comments were sought on other reasonable alternatives and how payments should be applied. Comments also were requested about the need for guidance on fixed payment programs.

The commenters were divided evenly between supporting the proposal versus keeping the existing policy whereby 90 percent of a payment qualifies as a full payment. Many commented about the significant programming costs that a change to the existing policy would cause. For that reason, the FFIEC is proposing that institutions be permitted to choose one of two methods. The first method retains the current policy of considering a payment equivalent to 90 percent or more of the contractual payment to be a full payment in computing delinquency. The second method would allow an institution to aggregate payments and give credit for any partial payment received; however, the account should be considered delinquent until all contractual payments are received. Whichever method is chosen, the same method should be used consistently within the entire portfolio.

Most commenters did not advocate additional guidance for fixed payment programs. Although no specific language is included in this policy, when an institution grants interest rate or principal concessions under a fixed payment program, and those concessions are material, the institution should follow generally accepted accounting principles (GAAP) guidelines presented in Financial Accounting Standards Board (FASB) 15 (Accounting by Debtors and Creditors for Troubled Debt Restructuring) and FASB 114 (Accounting by Creditors for Impairment of a Loan).

4. Re-aging, Extension, Renewal, Deferral, or Rewrite Policy

The September notice proposed and requested comment on supervisory standards for re-aging accounts.

Re-aging is the practice of bringing a delinquent account current after the borrower has demonstrated a renewed willingness and ability to repay the loan by making some, but not all, past due payments. A liberal re-aging policy on credit card accounts, or an extension, deferral, or rewrite policy on closed-end credit, can cloud the true performance and delinquency status of the accounts. The majority of commenters agreed that the borrower should show a renewed willingness and ability to repay, re-aging should occur after receipt of three months consecutive or equivalent lump sum payments, the account should be opened for a minimum period of time before it can be re-aged, and the account should not be re-aged more than once per year.

The FFIEC concurred with those criteria, but decided that additional guidance on the amount that could be re-aged, and the number of times the account could be re-aged in its lifetime were also needed. The FFIEC proposes to allow re-aging of delinquent loans, when it is based on recent, satisfactory performance by the borrowers and when it is structured in accordance with the institution's prudent internal policies. Institutions that re-age open-end accounts or extend, defer, or rewrite closed-end accounts should establish a written policy, ensure its reasonableness, and adhere to it. An account eligible for re-aging, extension, deferral, or re-write exhibits the following:

- The borrower should show a renewed willingness and ability to repay the loan.
- The borrower should make at least three consecutive contractual payments or the equivalent lump sum payment (funds may not be advanced by the institution for this purpose).
- No more than one re-age, extension, deferral, or rewrite should occur during any 12 month period.
- The account should exist for at least 12 months before a re-aging, extension, deferral, or rewrite is allowed.
- No more than two re-agings, extensions, deferrals, or rewrites should occur in the lifetime of the account.
- The re-aged balance in the account should not exceed the predelinquency credit limit.
- A re-aged, extended, deferred, or rewritten loan should be documented adequately.

5. Residential and Home Equity Loans

The September notice requested comment on whether residential and home equity loans should be classified Substandard at a certain delinquency and whether a collateral evaluation should be required at a certain delinquency.

Twenty-eight of 37 commenters agreed with classifying residential and home equity loans Substandard when they are 90 days delinquent. The proposed policy statement classifies certain residential and home equity loans Substandard at 90 days delinquent. However, the FFIEC recognizes that delinquent, low loan-to-value loans (i.e., those loans less than or equal to 60 percent of the real estate's value based on the most current appraisal or evaluation) possess little likelihood for loss as they are protected

adequately by the real estate. Those loans will be exempted from the proposed classification policy. The FFIEC proposes that, if an institution holds a first-lien residential real estate loan and a home equity loan to the same borrower, and if the combined loan-to-value ratio exceeds 60 percent, the loans should be classified as substandard when both are delinquent more than 90 days. If only the residential real estate loan is delinquent or if only the home equity loan is delinquent, only the delinquent loan is classified substandard. If the institution only holds the home equity loan and does not hold other prior residential mortgages to the same borrower, and the loan is delinquent 90 days or more, it should be classified Substandard.

The majority of commenters supported a collateral evaluation by the time the loan is 180 days delinquent. The proposed policy statement calls for a current evaluation of the collateral to be made by the time a residential or home equity loan is: (1) 150 days past due, if option one under the charge off time frames is selected, or (2) 120 days past due for closed-end credit and 180 days past due for open-end credit, if option 2 is selected. The outstanding balance in the loan in excess of fair value of the collateral, less the cost to sell, should be classified Loss and the balance classified Substandard.

6. Need for Additional Retail Credit Guidance

The September notice requested comment as to whether additional supervisory guidance is needed or would be beneficial. Comments were also sought as to whether additional supervisory guidance is needed on the loan loss reserve for retail credit.

The majority of commenters did not support any other regulatory guidance. Any additional guidance on the allowance for loan and lease loss will be addressed in other policy statements.

Proposed Revision

The FFIEC drafted a revised policy statement in consideration of the comments. The proposed policy statement will:

- Establish a charge-off policy for open-end and closed-end credit based on delinquency under one of two possible time frames;
- Provide guidance for loans affected by bankruptcy, fraudulent activity, and death;
- Establish standards for re-aging, extending, deferring, or rewriting of past due accounts;
- Classify certain delinquent residential mortgage and home equity loans; and
- Broaden the recognition of partial payments that qualify as a full payment.

The FFIEC considered the effect of GAAP on this guidance. GAAP requires that a loss be recognized promptly for assets or portions of assets deemed uncollectible. The FFIEC believes that this guidance requires prompt recognition of losses, and therefore, is consistent with GAAP.

This proposed policy statement, if adopted, will apply to all regulated financial institutions and their operating subsidiaries supervised by the FRB, FDIC, OCC, and OTS.

The proposed text of the statement is as follows:

Uniform Retail Credit Classification Policy [1]

Evidence of the quality of consumer credit soundness is indicated best by the repayment performance demonstrated by the borrower. When loans become seriously delinquent (90 days or more contractually past due), they display weaknesses that, if left uncorrected, may result in a loss. Because retail credit generally is comprised of a large number of relatively small balance loans, evaluating the quality of the retail credit portfolio on a loan-by-loan basis is inefficient and burdensome to the institution being examined and to examiners. Therefore, in general, retail credit should be classified based on the following criteria:

- [Option 1]: Open-end and closed-end retail loans that become past due 150 cumulative days or more from the contractual due date should be charged off. The charge off should be effected by the end of the month in which the requirement is triggered. Open-end and closed-end retail loans that are past due 90 days or more, but less than 150 cumulative days, should be classified Substandard or
- [Option 2]: Closed-end retail loans that become past due 120 cumulative days and open-end retail loans that become past due 180 cumulative days from the contractual due date should be charged off. The charge off should be effected by the end of the month in which the requirement is triggered. Open-end and closed-end retail loans that are past due 90 days or more should be classified Substandard.[2]
- Unsecured loans for which the borrower declared bankruptcy should be charged off by the end of the month in which the creditor receives notification of filing from the bankruptcy court, or within the charge-off time frames adopted in this classification policy, whichever is shorter.
- For secured and partially secured loans in bankruptcy, the collateral and the institution's security position in the bankruptcy court should be evaluated. Any outstanding investment in the loan in excess of the fair value of the collateral, less the cost to sell, should be charged off within 30 days of notification of filing from the bankruptcy court, or within the time frames in this classification policy, whichever is shorter. The remainder of the loan should be classified Substandard until the borrower re-establishes the ability and willingness to repay.
- Fraudulent loans should be charged off within 90 days of discovery, or within the time frames in this classification policy, whichever is shorter.
- Loans of deceased persons should be charged off when the loss is determined, or within the time frames adopted in this classification policy, whichever is shorter.
- One- to four-family residential real estate loans and home equity loans that are delinquent 90 days or more, and with loan-to-value ratios greater than 60%, should be classified Substandard.
- A current evaluation of the loan's collateral should be made by the time a residential or home equity loan is: (1) 150 days past due if option one under the charge off time frames is selected or

[1] The regulatory classifications used for retail credit are Substandard, Doubtful, and Loss. These are defined as follows: Substandard: An asset classified Substandard is protected inadequately by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful: An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loss: An asset, or portion thereof, classified Loss is considered uncollectible, and of such little value that its continuance on the books is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing off an essentially worthless asset (or portion thereof), even though partial recovery may occur in the future.

Although the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision do not require institutions to adopt the identical classification definitions, institutions should classify their assets using a system that can be easily reconciled with the regulatory classification system.

[2] The final policy will adopt only one of these options.

(2) 120 days past due for closed-end credit and 180 days past due for open-end credit if option 2 is selected. Any investment in excess of fair value of the collateral, less cost to sell, should be classified Loss and the balance classified Substandard.

Certain residential real estate loans with low loan-to-value ratios are exempt from classification based on delinquency, although these loans may be reviewed and classified individually. Residential real estate loans with a loan-to-value ratio equal to, or less than, 60 percent should not be classified based solely on delinquency status. In addition, home equity loans to the same borrower at the same institution as the senior mortgage loan with a combined loan-to-value ratio equal to, or less than, 60 percent, should not be classified. However, home equity loans where the institution does not hold the senior mortgage that are delinquent 90 days or more should be classified Substandard, even if the loan-to-value ratio is reportedly equal to, or less than, 60 percent.

The use of delinquency to classify retail credit is based on the presumption that delinquent loans display a serious weakness or weaknesses that, if uncorrected, demonstrate the distinct possibility that the institution will suffer a loss of either principal or interest. However, if an institution can clearly document that the delinquent loan is well secured and in the process of collection, such that collection will occur regardless of delinquency status, then the loan need not be classified. A well secured loan is collateralized by a perfected security interest on, or pledges of, real or personal property, including securities, with an estimated fair value, less cost to sell, sufficient to recover the recorded investment in the loan, as well as a reasonable return on that amount. In the process of collection means that either collection efforts or legal action is proceeding, and is reasonably expected to result in recovery of the recorded investment in the loan or its restoration to a current status, generally within the next 90 days.

This policy does not preclude an institution from adopting an internal classification policy more conservative than the one detailed above. It also does not preclude a regulatory agency from using the Doubtful classification in certain situations if a rating more severe than Substandard is justified. Nor does it preclude a charge-off sooner when accounts are recognized as Loss.

Partial Payments on Open-End and Closed-End Credit

Institutions should use one of two methods to recognize partial payments. A payment equivalent to 90 percent or more of the contractual payment may be considered a full payment in computing delinquency. Alternatively, the institution may aggregate payments and give credit for any partial payment received. However, the account should be considered delinquent until all contractual payments are received. For example, if a regular installment payment is $300 and the borrower makes payments of only $150 per month for a six-month period, the loan would be $900 ($150 shortage times six payments), or three full months delinquent. Whichever method is chosen, the same method should be used consistently within the entire portfolio.

Re-agings, Extensions, Deferrals, or Rewrites

Re-aging is the practice of bringing a delinquent account current after the borrower has demonstrated a renewed willingness and ability to repay the loan by making some, but not all, past due payments. A permissive re-aging policy on credit card accounts, or an extension, deferral, or re-write policy on closed-end credit, can cloud the true performance and delinquency status of the accounts. However, prudent use of the re-aging policy is acceptable when it is based on recent, satisfactory performance and the borrower's other positive credit factors and when it is structured in accordance with the institution's internal policies. Institutions that re-age open-end accounts, or extend, defer, or re-write closed-end accounts, should establish a written policy, ensure its reasonableness, and adhere to it. An account eligible for re-aging, extension, deferral, or rewrite exhibits the following:

- The borrower should show a renewed willingness and ability to repay the loan.
- The borrower should make at least three consecutive contractual payments or the equivalent lump sum payment (funds may not be advanced by the institution for this purpose).
- No loan should be re-aged, extended, deferred, or rewritten more than once within the preceding 12 months.
- The account should exist for at least 12 months before a re-aging, extension, deferral, or re-write is allowed.
- No more than two re-agings, extensions, deferrals, or re-writes should occur in the lifetime of the account.
- The re-aged balance in the account should not exceed the predelinquency credit limit.
- An institution should ensure that a re-aged, extended, deferred, or re-written loan meets the agencies' and institution's standards. The institution should adequately identify, discuss, and document any account that is re-aged, extended, deferred, or re-written.

Examination Considerations

Examiners should ensure that institutions adhere to this policy. Nevertheless, there may be instances that warrant exceptions to the general classification policy. Loans need not be classified if the institution can document clearly that repayment will occur irrespective of delinquency status. Examples might include loans well secured by marketable collateral and in the process of collection, loans for which claims are filed against solvent estates, and loans supported by insurance.

The uniform classification policy does not preclude examiners from reviewing and classifying individual large dollar retail credit loans, which may or may not be delinquent, but exhibit signs of credit weakness.

In addition to loan classification, the examination should focus on the institution's allowance for loan and lease loss and its risk and account management systems, including retail credit lending policy, adherence to stated policy, and operating procedures. Internal controls should be in place to assure that the policy is followed. Institutions lacking sound policies or failing to implement or effectively follow established policies will be subject to criticism.

Request for Comment

The FFIEC is requesting comments on all aspects of the proposed policy statement. In addition, the FFIEC also is asking for comment on a number of issues affecting the charge-off policy and will consider the answers before developing the final policy statement:

1. What would be the costs and benefits of the uniform 150 day charge-off time frame? What would be the costs and benefits of leaving the policy at the current 120/180 day charge-off time frames? The FFIEC welcomes historical statistical evidence showing the dollars and percentages of open-end accounts collected between 120 days delinquency and 150 days delinquency and between 150 days delinquency and 180 days delinquency.

2. What will be the effect of the proposed two time frame charge-off options on institutions? If possible, please quantify, in dollar amounts and percentages (of total operating expenses), the impact of the proposed options in the charge-off policy in the first year of implementation and in subsequent years for open-end and closed-end credits on:

(a) gross and net charge-offs;

(b) recoveries;

(c) earnings; and

(d) securitization transactions.

3. What are the expected dollar costs of reprogramming to implement the first option (uniform charge-off policy at 150 days past due) and what percentage of total operating expenses do those programming dollars represent? Also, can the programming changes be completed by the proposed January 1, 2001 implementation date?

4. Please provide any other information that the FFIEC should consider in determining the final policy statement including the optimal implementation date for the proposed changes.

Dated: June 30, 1998.

Keith J. Todd,

Acting Executive Secretary, Federal Financial Institutions Examination Council.

[FR Doc. 98–17782 Filed 7–2–98; 8:45 am]

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FEDERAL RESERVE SYSTEM

Change in Bank Control Notices; Acquisitions of Shares of Banks or Bank Holding Companies

The notificants listed below have applied under the Change in Bank Control Act (12 U.S.C. 1817(j)) and § 225.41 of the Board's Regulation Y (12 CFR 225.41) to acquire a bank or bank holding company. The factors that are considered in acting on the notices are set forth in paragraph 7 of the Act (12 U.S.C. 1817(j)(7)).

The notices are available for immediate inspection at the Federal Reserve Bank indicated. The notices also will be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing to the Reserve Bank indicated for that notice or to the offices of the Board of Governors. Comments must be received not later than July 20, 1998.

A. Federal Reserve Bank of St. Louis (Randall C. Sumner, Vice President) 411 Locust Street, St. Louis, Missouri 63102-2034:

1. Keith Ray Loeffler, Allendale, Illinois; to acquire additional voting shares of Allendale Bancorp, Inc., Allendale, Illinois, and thereby indirectly acquire First National Bank of Allendale, Allendale, Illinois.

Board of Governors of the Federal Reserve System, June 29, 1998.

Robert deV. Frierson,

Associate Secretary of the Board.

[FR Doc. 98–17742 Filed 7-2-98; 8:45 am]

BILLING CODE 6210-01-F

FEDERAL RESERVE SYSTEM

Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) (BHC Act), Regulation Y (12 CFR Part 225), and all other applicable statutes and regulations to become a bank holding company and/or to acquire the assets or the ownership of, control of, or the power to vote shares of a bank or bank holding company and all of the banks and nonbanking companies owned by the bank holding company, including the companies listed below.

The applications listed below, as well as other related filings required by the Board, are available for immediate inspection at the Federal Reserve Bank indicated. The application also will be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the standards enumerated in the BHC Act (12 U.S.C. 1842(c)). If the proposal also involves the acquisition of a nonbanking company, the review also includes whether the acquisition of the nonbanking company complies with the standards in section 4 of the BHC Act. Unless otherwise noted, nonbanking activities will be conducted throughout the United States.

Unless otherwise noted, comments regarding each of these applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than July 28, 1998.

A. Federal Reserve Bank of Cleveland (Paul Kaboth, Banking Supervisor) 1455 East Sixth Street, Cleveland, Ohio 44101-2566:

1. FNB Corporation, Hermitage, Pennsylvania, and Southwest Banks, Inc.; to merge with Citizens Holding Corporation, Clearwater, Florida, and thereby indirectly acquire Citizens Bank and Trust Company, Clearwater, Florida.

Board of Governors of the Federal Reserve System, June 29, 1998.

Robert deV. Frierson,

Associate Secretary of the Board.

[FR Doc. 98–17741 Filed 7-2-98; 8:45 am]

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FEDERAL RESERVE SYSTEM

Notice of Proposals to Engage in Permissible Nonbanking Activities or to Acquire Companies that are Engaged in Permissible Nonbanking Activities

The companies listed in this notice have given notice under section 4 of the Bank Holding Company Act (12 U.S.C. 1843) (BHC Act) and Regulation Y, (12 CFR Part 225) to engage *de novo*, or to acquire or control voting securities or assets of a company, including the companies listed below, that engages either directly or through a subsidiary or other company, in a nonbanking activity that is listed in § 225.28 of Regulation Y (12 CFR 225.28) or that the Board has determined by Order to be closely related to banking and permissible for bank holding companies. Unless otherwise noted, these activities will be conducted throughout the United States.

Each notice is available for inspection at the Federal Reserve Bank indicated. The notice also will be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the question whether the proposal complies with the standards of section 4 of the BHC Act.

Unless otherwise noted, comments regarding the applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than July 20, 1998.

A. Federal Reserve Bank of Boston (Richard Walker, Community Affairs Officer) 600 Atlantic Avenue, Boston, Massachusetts 02106-2204:

1. UST Corp., Boston, Massachusetts; to acquire through Cambridge Trade Finance Corp., Boston, Massachusetts certain assets of Cambridge Trading Services Corporation, Boston, Massachusetts, and thereby engage in extending credit and servicing loans, pursuant to § 225.28(b)(1).

B. Federal Reserve Bank of New York (Betsy Buttrill White, Senior Vice President) 33 Liberty Street, New York, New York 10045-0001:

1. Deutsche Bank AG, Frankfurt, Main, Federal Republic of Germany; to acquire Bouclier Vert Limite' L.L.C. d/b/a/ Green Shield Limited, L.L.C., Woodbury, New Jersey, and thereby engage in residential mortgage