Examination Council.

classification and treatment of retail
by the Agencies for uniform
This Policy is a supervisory policy used
adopt the Uniform Policy at this time.
member of FFIEC, does not plan to
closed-end loans. The National Credit
open-end accounts and extensions,
especially regarding the re-aging of
Classification and Account Management
revisions to the Uniform Retail Credit
(OTS), collectively referred
Supervision (OTS), and the Office of Thrift
System (FRB), the Federal Deposit
Legislative and Regulatory Activities

FEDERAL FINANCIAL INSTITUTIONS
Examination Council.

Uniform Retail Credit Classification
and Account Management Policy

AGENCY: Federal Financial Institutions
Examination Council.

ACTION: Final notice.

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, is publishing
revisions to the Uniform Retail Credit
Classification and Account Management
Policy, to clarify certain provisions,
especially regarding the re-aging of
open-end accounts and extensions,
deferrals, renewals, and rewrites of
closed-end loans. The National Credit
Union Administration (NCUA), also a
member of FFIEC, does not plan to
adopt the Uniform Policy at this time.
This Policy is a supervisory policy used
by the Agencies for uniform
classification and treatment of retail
credit loans in financial institutions.

DATES: Any changes to an institution’s
policies and procedures as a result of
the Uniform Retail Credit Classification
and Account Management Policy issued
on February 10, 1999, as modified by
these revisions, should be implemented
for reporting in the December 31, 2000,
Call Report or Thrift Financial Report,
as appropriate.

FOR FURTHER INFORMATION CONTACT:
FRB: David Adkins, Supervisory
Financial Analyst, (202) 452–5259, or
Anna Lee Hewko, Financial Analyst,
(202) 530–6260, 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), Diane Jenkins, (202) 452–3544,
Board of Governors of the Federal
Reserve System, 20th and C Streets,
N.W., Washington, D.C. 20551.

OCC: Daniel L. Pearson, National
Bank Examiner, (202) 874–5170, Credit
Risk Division, or Ron Shimabukuro,
Senior Attorney, (202) 874–5090,
Legislative and Regulatory Activities
Division, Chief Counsel’s Office, Office
of the Comptroller of the Currency, 250
E Street, SW., Washington, DC 20219.

FDIC: James Leitner, Examination
Specialist, (202) 898–6790, Division of
Supervision, or Michael Phillips,
Counsel, (202) 898–3581, Supervision
and Legislation Branch, Legal Division,
Federal Deposit Insurance Corporation,
550 17th Street, N.W., Washington, D.C.
20429.

OTS: William J. Magrini, Senior
Project Manager, (202) 906–5744, Donna
M. Deale, Manager, Supervision Policy,
(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 retail
installment credit based on delinquency
status. As a result of this review, on February 10, 1999 (64 FR
6655), the Agencies issued the Uniform
Retail Credit Classification and Account
Management Policy (Uniform Policy). In
general, the Uniform Policy:
• Established a charge-off policy for
open-end credit at 90 days
delinquency and closed-end credit at
120 days delinquency.
• Provided guidance for loans
affected by bankruptcy, fraud, and
death.
• Established guidelines for re-aging,
extending, deferring, or rewriting past
due accounts.
• Provided for classification of certain
delinquent residential mortgage and
home equity loans.
• Provided an alternative method of
recognizing partial payments.

As issued on February 10, 1999, the
Uniform Policy was effective for manual
adjustments to an institution’s policies
and procedures as of the June 30, 1999,
Call Report or Thrift Financial Report,
as appropriate. In addition, the Uniform
Policy allowed institutions until the
December 31, 2000, Reports to make
changes involving computer
programming resources. In a
modification issued on November 23,
1999 (64 FR 65712), the implementation
date for manual changes was extended to
the December 31, 2000, Reports.

Following the issuance of the Uniform
Policy, the Agencies received numerous
inquiries for clarifications of the
standards contained in the Policy,
especially with respect to the re-aging of
open-end accounts and extensions,
deferrals, renewals, or rewrites of
closed-end loans. In response to these
inquiries for clarification, the Agencies
have decided to publish this revised
Uniform Policy. In addition to various
editorial changes, the Agencies have
changed the Uniform Policy to clarify
various items in the Uniform Policy
with respect to (1) the re-aging of
open-end accounts; (2) extensions, deferrals,
renewals, and rewrites of closed-end
loans; (3) examiner considerations; and
(4) the treatment of specific categories of
closed-end accounts.

1. Re-aging of open-end accounts. The
Uniform Policy provided that open-end
accounts should not be re-aged more
than once within any twelve-month
period and no more than twice within
any five-year period. The Agencies have
decided to clarify the Uniform Policy by
stating that institutions may adopt a
more conservative re-aging standard
(e.g., some institutions allow only one
re-aging in the lifetime of an open-end
account). In addition, this modification
of the Uniform Policy recognizes the
importance of formal workout programs
and provides guidance on the handling
of open-end accounts that enter into this
type of program.

Specifically, the Agencies have
modified the Uniform Policy to provide
that institutions may re-age an account
after it enters a workout program,
including internal and third-party debt
counseling services, but only after
receipt of at least three consecutive
minimum monthly payments or the
equivalent cumulative amount. Re-aging
for workout program purposes is limited to
once in a five-year period and is in
addition to the once-in-twelve-months/
twice-in-five-years limitation. The term
“re-age” is defined in the document (in
footnote 3) to mean “returning a
delinquent, open-end account to current
status without collecting the total
amount of principal, interest, and fees
that are contractually due.” In the
Agencies’ view, management
information systems should track the
principal reductions and charge-off
history of loans in workout programs by
type of program.
2. Extensions, deferrals, renewals, and rewrites of closed-end loans. The Agencies have modified the Uniform Policy to provide that institutions should adopt and adhere to explicit standards that control the use of extensions, deferrals, renewals, and rewrites of closed-end loans. Such standards would be based on the borrower’s willingness and ability to repay the loan and would limit number and frequency of such treatment of closed-end loans. The Agencies have also defined the terms “extension,” “deferral,” “renewal,” and “rewrite.” This modification of the Uniform Policy states that institutions should adopt standards that prohibit additional advances that finance the unpaid interest and fees. The Agencies have added guidance that comprehensive and effective risk management, reporting, and internal controls be established and maintained to support the collection process and to ensure timely recognition of losses.

3. Examination considerations. The Agencies have added guidance that an examiner may classify retail portfolios, or segments thereof, where underwriting standards are weak and present unreasonable credit risk and may criticize account management practices that are deficient. Adoption of the Uniform Policy may affect an institution’s timing and measurement of probable loan losses that have been incurred. As a result of changes the Uniform Policy made to the 1980 policy, an institution may need to adjust its loan loss allowance to reflect any shortening in its time frame for recording charge-offs. Moreover, a larger allowance may be necessary if an institution’s charge-off practices are different than the new guidelines for accounts of deceased persons and accounts of borrowers in bankruptcy.

4. Treatment of specific categories of retail loans. These modifications to the Uniform Policy clarified the Policy’s treatment of various categories of retail loans:

- Regarding retail loans that are due to be charged off, in lieu of charging off the entire loan balance, loans with non-real estate collateral may be written down to the value of the collateral, less cost to sell, if repossession of collateral is assured and in process.
- For open- and closed-end loans secured by one-to four-family residential real estate, a current assessment of value should be made no later than 180 days past due, and any outstanding loan balance in excess of the value of the property, less cost to sell, should be charged off. The Agencies removed the condition in the Uniform Policy that such assessment would be required when a residential or home equity loan is 120 days past due.
- Loans in bankruptcy with collateral may be written down to the value of the collateral, less cost to sell.

As modified, the Uniform Policy now reads as follows:

**Uniform Retail Credit Classification and Account Management Policy**

The Uniform Retail Credit Classification and Account Management Policy establishes standards for the classification and treatment of retail credit in financial institutions. Retail credit consists of open- and closed-end credit extended to individuals for household, family, and other personal expenditures, and includes consumer loans and credit cards. For purposes of this policy, retail credit also includes loans to individuals secured by their personal residence, including first mortgage, home equity, and home improvement loans. Because a retail credit portfolio generally consists 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 for the institution being examined and for examiners.

Actual credit losses on individual retail credits should be recorded when the institution becomes aware of the loss, but in no case should the charge-off exceed the time frames stated in this policy. This policy does not preclude an institution from adopting a more conservative internal policy. Based on collection experience, when a portfolio’s history reflects high losses and low recoveries, more conservative standards are appropriate and necessary. The quality of retail credit is best indicated by the repayment performance of individual borrowers. Therefore, in general, retail credit should be classified based on the following criteria:

- Open- and closed-end retail loans past due 90 cumulative days from the contractual due date should be classified Substandard.
- 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 classified Loss and charged off.
- In lieu of charging off the entire loan balance, loans with non-real estate collateral may be written down to the value of the collateral, less cost to sell, if repossession of collateral is assured and in process.
- One- to four-family residential real estate loans and home equity loans that are past due 90 days or more with loan-to-value ratios greater than 60 percent should be classified Substandard.
- Properly secured residential real estate loans with loan-to-value ratios equal to or less than 60 percent are generally not classified based solely on delinquency status. 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 need not be classified Substandard. However, home equity loans where the institution does not hold the senior mortgage, that are past due 90 days or more should be classified Substandard, even if the loan-to-value ratio is equal to or less than 60 percent.
- For open- and closed-end loans secured by residential real estate, a current assessment of value should be made no later than 180 days past due. Any outstanding loan balance in excess of the value of the property, less cost to sell, should be classified Loss and charged off.
- Loans in bankruptcy should be classified Loss and charged off within

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1 The agencies' 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 identical classification definitions, institutions should classify their assets using a system that can be easily reconciled with the regulatory classification system.

2 For operational purposes, whenever a charge-off is necessary under this policy, it should be taken no later than the end of the month in which the applicable time period elapsed. Any full payment received after the 120- or 180-day charge-off threshold, but before month-end charge-off, may be considered in determining whether the charge-off remains appropriate. OTS Regulation 12 CFR 560.160(b) allows savings institutions to establish adequate (specific) loan loss allowances for assets classified Loss in lieu of charge-offs. Open-end retail accounts that are placed on a fixed repayment schedule should follow the charge-off time frame for closed-end loans.
60 days of receipt of notification of filing from the bankruptcy court or within the time frames specified in this classification policy, whichever is shorter, unless the institution can clearly demonstrate and document that repayment is likely to occur. Loans with collateral may be written down to the value of the collateral, less cost to sell. Any loan balance not charged off should be classified Substandard until the borrower re-establishes the ability and willingness to repay for a period of at least six months.

- Fraudulent loans should be classified Loss and charged off no later than 90 days of discovery or within the time frames adopted in this classification policy, whichever is shorter.
- Loans of deceased persons should be classified Loss and charged off when the loss is determined or within the time frames adopted in this classification policy, whichever is shorter.

Other Considerations for Classification

If an institution can clearly document that a past due 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 in, or pledges of, real or personal property, including securities with an estimable 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 a collection effort or legal action is proceeding and is reasonably expected to result in recovery of the loan balance or its restoration to a current status, generally within the next 90 days.

Partial Payments on Open-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 past due status. Alternatively, the institution may aggregate payments and give credit for any partial payment 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 past due. An institution may use either or both methods in its portfolio, but may not use both methods simultaneously with a single loan.

Re-Aging, Extensions, Deferrals, Renewals, and Rewrites

Re-aging of open-end accounts, and extensions, deferrals, renewals, and rewrites of closed-end loans can be used to help borrowers overcome temporary financial difficulties, such as loss of job, medical emergency, or change in family circumstances like loss of a family member. A permissive policy on re-aging, extensions, deferrals, renewals, or rewrites can cloud the true performance and delinquency status of the portfolio. However, prudent use is acceptable when it is based on a renewed willingness and ability to repay the loan, and when it is structured and controlled in accordance with sound internal policies.

Management should ensure that comprehensive and effective risk management and internal controls are established and maintained so that re-ages, extensions, deferrals, renewals, and rewrites can be adequately controlled and monitored by management and verified by examiners. The decision to re-age, extend, defer, renew, or rewrite a loan, like any other modification of contractual terms, should be supported in the institution’s management information systems. Adequate management information systems usually identify and document any loan that is re-aged, extended, deferred, renewed, or rewritten, including the number of times such action has been taken. Documentation normally shows that the institution’s personnel communicated with the borrower, the borrower agreed to pay the loan in full, and the borrower has the ability to repay the loan. To be effective, management information systems should also monitor and track the volume and performance of loans that have been re-aged, extended, deferred, renewed, or rewritten and/or placed in a workout program.

Open-End Accounts

Institutions that re-age open-end accounts should establish a reasonable written policy and adhere to it. To be considered for re-aging, an account should exhibit the following:
- The borrower has demonstrated a renewed willingness and ability to repay the loan.
- The account has existed for at least nine months.
- The borrower has made at least three consecutive minimum monthly payments or the equivalent cumulative amount. Funds may not be advanced by the institution for this purpose.

Open-end accounts should not be re-aged more than once within any twelve-month period and no more than twice within any five-year period. Institutions may adopt a more conservative re-aging standard; for example, some institutions allow only one re-aging in the lifetime of an open-end account. Additionally, an over-limit account may be re-aged at its outstanding balance (including the over-limit balance, interest, and fees), provided that no new credit is extended to the borrower until the balance falls below the predelinquency credit limit.

Institutions may re-age an account after it enters a workout program, including internal and third-party debt counseling services, but only after receipt of at least three consecutive minimum monthly payments or the equivalent cumulative amount, as agreed upon under the workout or debt management program. Re-aging for workout purposes is limited to once in a five-year period and is in addition to the once in twelve-months/twice in five-year limitation described above. To be effective, management information systems should track the principal reductions and charge-off history of loans in workout programs by type of program.

Closed-End Loans

Institutions should adopt and adhere to explicit standards that control the use of extensions, deferrals, renewals, and rewrites of closed-end loans. The standards should exhibit the following:
- The borrower should show a renewed willingness and ability to repay the loan.
- The standards should limit the number and frequency of extensions, deferrals, renewals, and rewrites.
- Additional advances to finance unpaid interest and fees should be prohibited.

Management should ensure that comprehensive and effective risk management, reporting, and internal controls are established and maintained...
to support the collection process and to ensure timely recognition of losses. To be effective, management information systems should track the subsequent principal reductions and charge-off history of loans that have been granted an extension, deferral, renewal, or rewrite.

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 valid insurance claims.

The Uniform Classification and Account Management policy does not preclude examiners from classifying individual retail credit loans that exhibit signs of credit weakness regardless of delinquency status. Similarly, an examiner may also classify retail portfolios, or segments thereof, where underwriting standards are weak and present unreasonable credit risk, and may criticize account management practices that are deficient.

In addition to reviewing loan classifications, the examiner should ensure that the institution’s allowance for loan and lease losses provides adequate coverage for probable losses inherent in the portfolio. Sound risk and account management systems, including a prudent retail credit lending policy, measures to ensure and monitor adherence to stated policy, and detailed operating procedures, should also be implemented. Internal controls should be in place to ensure that the policy is followed. Institutions that lack sound policies or fail to implement or effectively adhere to established policies will be subject to criticism.

Implementation

This policy should be fully implemented for reporting in the December 31, 2000 Call Report or Thrift Financial Report, as appropriate.

Dated: June 6, 2000.

Keith J. Todd,
Executive Secretary, Federal Financial Institutions Examination Council.

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 Federal Reserve Bank indicated for that notice or to the offices of the Board of Governors. Comments must be received not later than June 26, 2000.

A. Federal Reserve Bank of Kansas City

City (D. Michael Manies, Assistant Vice President) 925 Grand Avenue, Kansas City, Missouri 64198–0001:

1. Robert M. Alexander, Calhan, Colorado; Sean A. Gooding, Cherry Hills Village, Colorado; Alexander R. Gooding, Cherry Hills Village, Colorado; Leslie A. Melzer, Denver, Colorado; Robert J. Breidenthal, Bonner Springs, Kansas; Arcadia Partners, Ltd., (Dan & Patricia League), Colorado Springs, Colorado; Michael S. League, Colorado Springs, Colorado; and Joe F. Jenkins, Tonganoxie, Kansas; to acquire voting shares of First National Bank of Colorado Springs, Colorado.


Robert Dev. Frierson,
Associate Secretary of the Board.

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

Employee Thrift Advisory Council; Open Meeting

In accordance with section 10(a)(2) of the Federal Advisory Committee Act (Pub. L. 92–463), a notice is hereby given of the following committee meeting:

NAME: Employee Thrift Advisory Council.

TIME: 10 a.m.

DATE: June 27, 2000.

PLACE: 4th Floor, Conference Room, Federal Retirement Thrift Investment Board, 1250 H Street, NW, Washington, DC

STATUS: Open.

MATTERS TO BE CONSIDERED:

1. Approve minutes of the May 19, 1999 meeting.


4. Legislation.

5. New TSP record keeping system/investment fund.


Any interested person may attend, appear before, or file statements with the Council. For further information contact Elizabeth S. Woodruff, Committee Management Officer, on (202) 942–1660.

Dated: June 6, 2000.

Elizabeth S. Woodruff,
General Counsel, Federal Retirement Thrift Investment Board.