Southeast Bankers Outreach Forum

Allowance for Loan and Lease Loss Challenges

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The opinions expressed are those of the presenter and are not those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or its Board of Governors.
Agenda

- Key asset quality metrics related to the ALLL
- What are the current conditions out in the field as it relates to the ALLL
- Exam related issues
Reserves/ Nonaccrual Loans (X)

Source: Bank Call Reports
Building/Releasing Reserves

Building Reserves > 0%, Releasing Reserves < 0%

Source: Bank Call Reports
Asset Quality Trends

Medians, Percent of Total Loans + OREO

Source: Bank Call Reports

Data through 2014Q2
What are the current conditions out in the field?

- Improving economic indicators leading to a reduction in past due and nonaccrual loans
- Charge-offs have reduced significantly
- Minimal provision requirement and in some cases reverse provisions.
What have we observed with the key components of the ALLL?

- As conditions improve the ASC-450 becomes more relevant
  - Greater emphasis on supporting the 450:
    - Historical loss period should be gradually returning to normal conditions
    - Q-factors instrumental in supporting leading indicators
Exam Related Issues

- Inconsistent approach (homogeneous groups)
- Loss periods (look back) need to transition back to normal economic periods
- Support unallocated portfolio
- Proper treatment of anomalies
- Documentation – (Q-Factors)
- Validation – independent testing
QUESTIONS?