

CHAPTER 18  
MAINTENANCE OF ALLOWANCE FOR LOAN AND LEASE LOSSES ACCOUNT

Chapter exempt from chapter rescission pursuant to Iowa Code section 17A.7

**189—18.1(533) Definitions.** The following words and terms, when used in these rules, shall have the meaning shown below:

*“Allowance for loan and lease losses”* means an estimate of loan and lease losses in the entire loan portfolio, including estimated inherent losses. Credit unions with assets of \$10 million or greater must conform with generally accepted accounting principles and meet regulatory requirements for full and fair disclosure of the financial statements. Credit unions with less than \$10 million in assets must conform with these rules and meet regulatory requirements for full and fair disclosure or generally accepted accounting principles.

*“Legal reserve”* means the statutory reserve account of the credit union set aside from gross earnings as a regular reserve against losses on loans and other contingencies, in accordance with Iowa Code chapter 533.

*“Provision for loan and lease losses”* means an expense account of the general ledger to which debit or credit adjustments to the allowance for loan and lease losses are charged.

*“Special reserve”* means an additional regular reserve account of the credit union, established and required by the superintendent, to be set aside against losses from loans or other contingencies, in accordance with Iowa Code chapter 533.

[ARC 9777B, IAB 10/5/11, effective 11/9/11; ARC 6553C, IAB 10/5/22, effective 11/9/22]

**189—18.2(533) Legal reserve required.**

**18.2(1)** Each credit union shall establish and maintain a legal reserve for contingencies as provided by Iowa Code chapter 533. The totals of the legal reserve and the allowance for loan losses account shall be combined for determining the applicable percentage of gross income to be transferred to the legal reserve.

**18.2(2)** Nothing in this rule shall preclude the requirements of Iowa Code chapter 533 relating to the maintenance of the legal reserve or to the authority of the superintendent to approve a plan for distribution of the reserve or to the requiring of additional amounts to be set aside as a special reserve.

**189—18.3(533) Generally accepted accounting principles.**

**18.3(1)** Credit unions with assets of \$10 million or greater must prepare financial statements in accordance with generally accepted accounting principles (GAAP). Credit unions with assets of less than \$10 million may prepare financial statements in accordance with authorized intentional regulatory accounting principles (RAP). All credit union financial statements shall provide for the complete and accurate disclosure of all assets, liabilities, and equity, including any valuation allowance accounts as may be necessary to correctly present the financial position; and all income and expenses necessary to correctly present the results of operations for the period concerned.

**18.3(2)** The financial statement shall be prepared and made available within 15 days after the end of each month and shall show the condition of the credit union as of the close of business on the last business day of the month.

**18.3(3)** Complete and accurate disclosure shall be required of a credit union so as to provide for a level of disclosure to any person or entity in order to clearly and objectively inform them of the financial condition and the results of operations of the credit union.

[ARC 9777B, IAB 10/5/11, effective 11/9/11; ARC 6553C, IAB 10/5/22, effective 11/9/22]

**189—18.4(533) Allowance for loan and lease losses.**

**18.4(1)** The amount carried in this account shall represent an amount at least equal to reasonably foreseeable loan and lease losses. Each credit union is required to establish and maintain a methodology to determine the amount needed in the allowance for loan and lease losses account. Credit unions with \$10 million or greater in assets must determine allowance for loan and lease losses account in accordance with generally accepted accounting principles (GAAP).

**18.4(2)** The credit union's board of directors must adopt a policy ensuring that loans are charged off in a timely manner.

**18.4(3)** At a minimum, the account shall be adjusted at least quarterly or prior to the end of each dividend period, or more often as required. The amount of the periodic adjustments shall be determined by the credit union after all charge-offs and recoveries applicable to the period have been recorded. Periodic adjustments to the allowance for loan and lease losses account will be charged to the provision for loan and lease losses.

**18.4(4)** The credit union shall maintain full and complete documentation of the determination of the balance in the allowance for loan and lease losses account.

**18.4(5)** The maintenance of an allowance for loan and lease losses account shall not eliminate the requirement for transferring the percentage of gross income before the payment of a dividend to the credit union's regular reserves as required by Iowa Code chapter 533.

[ARC 9777B, IAB 10/5/11, effective 11/9/11; ARC 6553C, IAB 10/5/22, effective 11/9/22]

#### **189—18.5(533) Allowance for loan and lease losses computation.**

**18.5(1)** Credit unions are responsible for determining an adequate allowance for loan and lease losses account and adopting a reasonable methodology for doing so. Credit unions with assets \$10 million or greater shall follow generally accepted accounting principles (GAAP). In determining the appropriate allowance, each credit union with less than \$10 million in assets shall:

- a. Separate the loan portfolio into homogenous loan pools based on common risk factors;
- b. Calculate the net loss percentage of each pool, using the historical loss or adjusted loss method which includes consideration of: loan delinquency status; collection experience of the credit union; economic conditions that may affect collectibility; availability of pledged shares; collateral, security, or endorsers; insured or guaranteed status; and the general credit reputation of the borrowers;
- c. Individually classify loans with unique characteristics;
- d. Add the resulting amounts to determine the amount needed in the allowance for loan and lease losses account.

**18.5(2)** If a credit union fails to determine an adequate and reasonable allowance for loan and lease losses which will result in the fair presentation of its financial statement, the superintendent may require additional amounts to be set aside as provided by Iowa Code chapter 533.

[ARC 9777B, IAB 10/5/11, effective 11/9/11; ARC 6553C, IAB 10/5/22, effective 11/9/22]

#### **189—18.6(533) Accounting treatment.**

**18.6(1)** The allowance for loan and lease losses account shall be charged with the amount of the uncollectible loans which have been authorized for charge-off by the board of directors or as directed by the superintendent. Likewise, recoveries on loans charged off shall be credited to this account.

**18.6(2)** Routine periodic adjustments to the allowance for loan and lease losses account, accomplished during an accounting or dividend period within the current fiscal year, shall be made by a charge to the provision for loan and lease losses account.

**18.6(3)** Prior period adjustments to the allowance for loan and lease losses account, within the current fiscal year, may be permitted only in relation to the correction of an error in a prior period financial statement. These corrections shall be accounted for and reported in the same manner as routine periodic adjustments, and shall be charged to the current period expenses through the provision for loan and lease losses.

**18.6(4)** Prior period adjustments to the allowance for loan and lease losses account, outside of the current fiscal year, may be permitted only in relation to the correction of an error in the previous fiscal year financial statement. These corrections shall be accounted for and reported as a charge to the undivided earnings account. If the result of this correction would create a deficit balance in the undivided earnings account, the deficiency so created may be transferred to other segregations of undivided earnings or to the legal reserve account, subject to the prior approval of the superintendent.

**18.6(5)** If a deficit is created in the legal reserve account, through the establishment or maintenance of the allowance for loan and lease losses account, the deficit shall be transferred first to undivided earnings

and, if this shall cause a deficit in undivided earnings, then to other segregations of undivided earnings that may exist, exclusive of the special reserve account should it be required by the superintendent.

**18.6(6)** The superintendent may waive, in whole or in part, the requirement for the maintenance of the allowance for loan and lease losses account which is in excess of the statutory reserve requirements of Iowa Code chapter 533 but is required under this chapter. Such waiver shall be as a result of written application from the directors of a credit union and shall set forth their justification for the requested waiver.

[ARC 9777B, IAB 10/5/11, effective 11/9/11]

These rules are intended to implement Iowa Code chapter 533.

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