189—18.4(533) Allowance for loan losses.

18.4(1) Loans outstanding should be recorded to reflect the outstanding balance due the credit union and adjusted by the establishment of an allowance for loan losses account through periodic charges to operating expenses. This credit balance account reflects the amount set aside by the credit union to provide a cushion to absorb losses on outstanding loans. The amount carried in this account shall represent possible losses which may be incurred in the normal payoff of outstanding loans, and shall be considered as a deduction from total loans shown on the financial statement in order that the asset reflects fair market value.

18.4(2) A credit union may, at its option, establish separate allowance accounts for each of its various categories of loans, i.e., allowance for loan losses—consumer loans, allowance for loan losses—lines of credit, etc.

18.4(3) Periodic adjustment of the allowance for loan losses account shall be required to provide for the disclosure of the credit union's best estimate of potential losses which will be sustained in the liquidation of current outstanding loans. As 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 losses account will be charged to the provision for loan losses account.

18.4(4) The maintenance of an allowance for loan 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.

18.4(5) Credit unions shall be required to use an acceptable method of adjusting the allowance for loan losses account, such as, but not limited to, the "adjustment method" or "experience method." There is no one method that is preferable. The method used by a credit union shall be consistent, comprehensive, logical, and relevant to the credit union's circumstances, and the calculation shall be comprehensive, taking into account the risks inherent in the various types of lending.