

1301:9-2-04

Charge-off of uncollectible loans and other losses and reserves.

- (A) The purpose of the allowance for loan losses is to represent the management's estimate of loan losses in a credit union's loan portfolio. The allowance for loan losses will be charged with the amount of uncollectible loans and loan-derived assets which have been authorized for charge-off by the board of directors: likewise, recoveries on loans previously charged-off will be credited to this account.
- (B) A record shall be maintained of all loans charged-off. Said record shall contain the following information: account number, name, original date, amount of original loan, security, balance at the time of charge-off; and what, if any, recovery has been made on the security. This record shall be kept current and made available to the examiners at each examination.
- (C) Loans should be charged-off when they are deemed uncollectible. That practice should be applied consistently in all interim financial reporting periods in accordance with GAAP. A credit union's loan policy shall address when a loan is deemed uncollectible.
- (D) Interest should not be accrued on loans which are doubtful of collection. For this purpose, loans on which payments have not been received for six months or more, should be considered as doubtful of collection.
- (E) Each credit union shall establish and maintain reserves and allowances as required by section 1733.31 of the Revised Code, this rule, and administrative guidelines issued by the superintendent.
- (F) Pursuant to section 1733.31 of the Revised Code, the superintendent has established the following as additional nonrisk assets:
 - (1) Prepaid share insurance; other prepaid insurance;
 - (2) Other prepaid and deferred expenses;
 - (3) Accrued income on nonrisk assets; and
 - (4) Deposits in corporate credit unions with maturities of two years or less.
- (G) Reserves for corporate credit unions.
 - (1) At the end of each dividend cycle and prior to paying a dividend (or, at the option of the corporate credit union, on a monthly basis if dividends are paid

more frequently than monthly), sums shall be set aside in a corporate reserve in accordance with the following schedule:

- (a) When the credit union's corporate reserve and undivided earnings are less than two per cent of the assets at the end of the transfer period, the credit union shall set aside an amount equal to .0015 times the number of days in the transfer period divided by three hundred sixty-five.
 - (b) When the corporate reserve and undivided earnings are equal to or greater than two per cent of the assets but the corporate reserve is less than four per cent of the assets, the credit union shall set aside an amount equal to .0010 times the credit union's average daily assets for the transfer period times the number of days in the transfer period divided by three hundred sixty-five.
- (2) Charges may be made to the corporate reserve for loan losses and for investment losses accrued by factors other than trading losses or market fluctuations. No other charges shall be made except as may be authorized in writing by the superintendent. Charges shall be made in accordance with GAAP.
- (H) Refinance or extension agreements. Each credit union's written lending policies shall include loan workout arrangements, and nonaccrual standards that include the discontinuance of interest accrual on loans past due by 90 days or more and requirements for returning such loans, including member business loans, to accrual status. The past due status of all loans shall be calculated consistent with loan contract terms, including amendments made to loan terms through a formal restructure.
- ~~(1) In the determination of the amount of delinquency of a loan and the proper amount to be added to the allowance for loan losses account, the terms "refinance" and "extension" shall be treated as if they are one and the same.~~
- ~~(a) Credit unions are authorized to grant to members in certain cases an extension of the time in which a loan must be paid off; this is accomplished by an agreement between the credit union and the member borrower.~~
- ~~(b) In making such renegotiated arrangements, the credit union must comply with all provisions of the credit union's applicable policy.~~
- ~~(i) In either case, the loan so negotiated shall be deemed to be of current status only if six consecutive payments are made thereon, pursuant to the new loan terms.~~

~~(ii) Should the borrower make six consecutive payments and then default for any reason, the resultant delinquency and allowance for loan losses shall be determined based upon the original terms of the loan and not upon the renegotiated loans.~~

~~(2) The new note or extension agreement and related documents shall be attached to a copy of the original note in either example given above.~~

~~(3) Only one refinance or extension agreement shall be permitted for the purpose of determining delinquency and allowance for loan losses.~~

(I) Repossessions/foreclosures.

After the sale of a repossessed security, the allowance for loan losses is to be funded in an amount equal to the deficiency balance until the loan is charged-off. A permanent record shall be maintained of all security that is repossessed and/or foreclosed.

Replaces: Part of 1301:9-2-08

Effective:

Five Year Review (FYR) Dates:

Certification

Date

Promulgated Under: 119.03
Statutory Authority: 1733.41
Rule Amplifies: 1733.31
Prior Effective Dates: 12/31/75, 3/29/76, 5/6/77, 9/1/79, 2/11/88, 3/22/12