

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8555]
April 17, 1979

PAST DUE CONSUMER INSTALMENT LOANS
Comment Invited on Uniform Bank Examination Policy

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a statement issued jointly by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation:

Federal bank supervisors today [April 11] proposed a uniform policy for determining how bank examiners should classify past due consumer instalment loans held by commercial banks.

The agencies requested comment on the proposal by May 18, 1979.

The statement of policy was proposed by the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve Board. The proposed procedure would not affect consumers directly. It would be used by bank examiners of the three agencies in examinations of federally insured commercial banks. Nevertheless, the agencies requested comment on any implications for consumer credit ratings.

The agencies said the proposed bank examination policy would promote improved and uniform treatment for the classification of delinquent consumer loans in portfolios of commercial banks. It would replace policies that vary widely among the three supervisory agencies and that result in uneven treatment by examiners of the loans of various types of banks.

The amount of a bank's loans classified by an examiner affects the views of the bank regulator as to the bank's overall condition. Loans classified as loss are expected to be written off against loss reserves, or otherwise eliminated as reported assets of the bank.

The proposed policy would establish the following standards:

1. The following loans would be considered *delinquent*:

—Consumer instalment loans and mobile home loans treated as consumer instalment loans that are 30 days or more overdue.

2. The following delinquent loans would be classified as *substandard*:

—All outstanding consumer loans overdue for more than 60 days but less than 120 days.

—Consumer instalment loans overdue more than 120 days for which there is a recent record of regular contractual payments.

“Recent record of regular contractual payments” would be defined as timely payment in full of the two most recently due instalments.

The agencies asked for comment whether the definition should be broadened to include partial payments made by agreement with the creditor.

3. The following delinquent loans would be classified by examiners as *losses* to the lending institution holding them:

—Consumer instalment loans (with two exceptions, noted below) overdue for more than 120 days unless the two most recently due instalments have been paid in full on time.

This would lengthen the time before many Federal bank examiners would require overdue consumer instalment loans to be classified as losses. In many cases Federal bank supervisors currently require that such loans overdue 90 days must be classified as losses.

The *exceptions* to this classification would be:

A. Mobile home loans treated as consumer instalment loans on which payments have been overdue for more than 180 days, unless:

—The two most recently due instalments have been paid in full, or

—The collateral pledged for such a loan has been repossessed within the 180-day period.

Loans on mobile homes that are essentially real property would be treated as real estate—not consumer instalment—loans.

B. The uninsured portion of loans made under Federal Housing Authority Title I, when claims have been filed, or, in the absence of claims, that are overdue *180 days*.

The agencies proposed that credit extended on the basis of bank credit cards, as well as check credit and overdraft credit would be treated the same as consumer instalment loans.

The proposed policy does not apply to business instalment loans, where established evaluation procedures will continue to be used.

The agencies proposed that the new policy would become effective approximately 60 days after final adoption and announcement by the three agencies.

The agencies specifically requested comment on the following:

—Are the definitions for “delinquent loans” and “recent record of regular contractual payments” sufficiently clear to provide for uniform treatment? Should the definition of “recent record of regular contractual payments” be broadened to include partial payments when the bank and the borrower have agreed formally on such arrangements?

—Should credit card loans, check credit or overdraft credit be treated the same as other cited types of consumer instalment loans?

—Early adoption of the proposal is considered desirable in view of the potential impact on earnings in some banks. However, early adoption may impact adversely some banks due to the time required to change computer programs or other internal procedures. Does an effective date 60 days after adoption of the policy by the agencies give banks sufficient flexibility in preparing for implementation?

—Any comment on the effects of the proposed procedure on consumers would be appreciated, especially with regard to the implications on credit ratings resulting from charge-offs imposed by bank examiners. Should banks be required to correct the consumer’s credit record in cases where previously reported charged-off loans are subsequently recovered?

Printed below is the text of the proposed policy statement. Comments thereon should be submitted by May 18 and may be sent to our Bank Examinations Department.

PAUL A. VOLCKER,
President.

[Docket No. R-0217]

JOINT NOTICE OF PROPOSED POLICY STATEMENT

AGENCIES: Board of Governors of the Federal Reserve System, Comptroller of the Currency, and Federal Deposit Insurance Corporation.

ACTION: Proposed statement of interagency policy on classification of delinquent consumer instalment loans.

SUMMARY: The proposed statement of examination policy sets forth uniform procedures which the agencies propose to use in examinations of insured banks. It is intended that specific standardized procedures will promote improved and uniform treatment for classification of consumer instalment lending activities in commercial banks. Realizing the value of public participation in the formulation of these procedures, the agencies are requesting comments on them and have designated specific issues for comment.

DATES: Comments must be received on or before May 18, 1979.

ADDRESS: Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. All materials submitted should include the Docket Number R-0217.

FOR FURTHER INFORMATION CONTACT: Rufus Burns, Office of the Comptroller of the Currency (202-447-1684), N. Edwin Demoney, Jr., Board of Governors of the Federal Reserve System (202-452-2434), or Jack Edgington, Federal Deposit Insurance Corporation (202-389-4404).

SUPPLEMENTARY INFORMATION: This document is intended as a statement of the procedures that the Federal banking agencies involved propose to use in examinations of insured banks for the classification of delinquent consumer instalment loans. At the current time, there is wide variation among the supervisory agencies and throughout the banking industry as to the treatment of such loans. This lack of uniformity has resulted in uneven treatment among classes of banks and has made it particularly difficult for multi-bank holding companies that have subsidiary banks under the supervision of different agencies to adopt consistent policies.

In view of the potential impact and costs associated with the adoption of internal bank policies to conform with the proposed examination procedures, the agencies believe it advisable to solicit public comment to determine what modification might be appropriate, if any, in the procedures.

PROPOSED STATEMENT OF EXAMINATION POLICY

All outstanding consumer instalment loans, except as indicated below, that are delinquent in excess of 120 days shall be classified as loss unless a recent record of regular contractual payments is evident. In the event of the latter, loans will be classified substandard.

All outstanding consumer loans delinquent in excess of 60 days but less than 120 days shall be classified substandard.

Mobile home loans delinquent in excess of 180 days shall be classified as loss unless there is a record of recent regular contractual payments, or unless collateral pledged to such loans has been repossessed within the 180-day period. Loans on mobile homes which are essentially real property shall be accorded the same treatment as real estate loans.

The uninsured portion of Federal Housing Authority Title 1 loans shall be classified as loss when claims have been filed, or when delinquent in excess of 180 days where no claims have been filed. Insured portions in such instances shall not be classified.

Credit card loans, check credit and/or overdraft credit shall be treated the same as consumer instalment loans.

In those instances where collateral has been repossessed less than 120 days but not yet liquidated, the anticipated deficiency balance shall be classified as loss and the amount expected to be realized from disposition of collateral as substandard. When repossessed collateral has been held in excess of 120 days, the entire balance of the loan shall be classified as loss, unless State or local laws contain restrictions on disposition.

Consumer instalment loans and mobile home loans shall be considered delinquent 30 days after the date a regular contractual payment is due. A recent record of regular contractual payments is defined as full payment of the two most recent contractual instalments due.

This policy does not apply to business instalment loans. Moreover, deviation from this policy is not en-

couraged; however, it does not preclude the removal of assets delinquent for a lesser period when a loss classification is warranted.

This policy shall become effective 60 days after the date it is issued.

Designated Issues

1. Are the definitions for "delinquent loans" and "recent record of regular contractual payments" sufficiently clear to provide for uniform treatment? Should the definition of "recent record of regular contractual payments" be broadened to include partial payments when the bank and the borrower have agreed formally on such arrangement?

2. Should credit card loans, check credit and/or overdraft credit be treated the same as other cited types of consumer instalment loans?

3. Early adoption of the proposal is considered desirable in view of the potential impact on earnings in some banks. However, early adoption may impact adversely some banks due to the time required to change computer programs and/or other internal procedures. Does an effective date 60 days after adoption of the policy by the agencies give banks sufficient flexibility in preparing for implementation?

4. Any comment on the effects of the proposed procedure on consumers would be appreciated, especially with regard to the implications on credit ratings resulting from charge-offs imposed by bank examiners. Should banks be required to correct the consumer's credit record in cases where previously reported charged-off loans are subsequently recovered?

PUBLICATION FOR COMMENT

The Administrative Procedure Act does not require notice and solicitation of comment in connection with the establishment of examination policies or procedures. However, in consideration of the agencies' desire to solicit public participation on these issues, they have elected to afford an opportunity for comment on this proposed policy.