



EXAMINING ISSUANCE

Comptroller of the Currency
Administrator of National Banks

Type: Examining Circular

Certification Procedures for Consumer
Subject: Loans Charged-off Between
Examinations

TO: Deputy Comptrollers, District and Regional Administrators and All Examining Personnel

PURPOSE

This issuance revises OCC procedures for examiner certification of consumer loans charged-off between examinations.

BACKGROUND

The OCC procedures for certification of installment loans charged- off between examinations directed the examiner to review the schedule of voluntary charge-offs made since the preceding examination and 1) on a test basis, review files on borrowers and determine that the charge-off was correct and 2) prepare the certification form CC-1427-OX (attached). If the examiner agreed that the tested loans were correctly charged-off, he or she would certify to all the consumer loans charged-off between examinations.

The Internal Revenue Service (IRS) asked if the OCC would enforce a minimum charge-off policy for voluntary charge-offs. Because the examiner did not review each charged-off loan, the IRS was concerned that some banks may take early losses on consumer loans solely to reduce tax liabilities.

The OCC consumer loan charge-off policy, Banking Circular 140 (BC- 140) specifies that loans delinquent 120 days or more are considered loss. We also recognize that a bank may make valid charge-off entries before a loan is 120 days past due. Because of that fact, we do not wish to require banks to adhere to a minimum 120 day charge-off policy at all times. Therefore, at the request of the IRS, we have altered our certification procedures to allow some variation in charge-off and, at the same time, incorporate IRS concerns about banks' tax liabilities.

PROCEDURE

Examiners will certify only to consumer loans the bank charged-off between examinations in the following manner:

Loans Delinquent 120 Days or More

For consumer loans charged-off which were 120 days or more delinquent, the bank must show proof of the past-due status. The examiner will determine the validity of the charge-off based on the past-due



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information. The OCC will not expect the bank to provide any additional information for those loans.

Loans Delinquent 90-120 Days

For consumer loans charged-off which were 90 to 120 days delinquent the bank must show proof of past-due status and briefly describe the reason(s) for the charge-off. To certify to this group of loans the examiner will determine the validity of the bank's charge-off based on the past-due status and the bank's explanation.

Loans Delinquent from 0-90 Days

Examiners will not certify to any consumer loans the bank charged- off which were less than 90 days delinquent. Bank management must be prepared to justify such charge-offs to the IRS.

Documentation

A new form, WP-209-17, is attached that the banks may use in submitting the required information for the examiner's review.

Form CC-1427-OX (attached) has been revised to include the information requested. Examiners may wish to refer to information supplied by banks by stating "see attached" on CC-1427-OX, rather than retyping the information.

EFFECTIVE DATE

This procedure is effective immediately.

John F. Downey
Chief National Bank Examiner

Related Links

- [Schedule](#)
- [Certification Form](#)