

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, and Savings and Loan Holding Companies
in the Twelfth Federal Reserve District

Agencies Issue Guidance on Junior Lien Loan Loss Allowances

Four federal financial regulatory agencies on January 31, 2012 issued supervisory guidance on allowance for loan and lease losses (ALLL) estimation practices associated with loans and lines of credit secured by junior liens on one- to four-family residential properties.

The agencies issued the guidance to reiterate policy and to remind regulated financial institutions to monitor all credit quality indicators relevant to credit portfolios, including junior liens. Examples of junior liens include second mortgages and home equity lines of credit taken out by mortgage borrowers.

The Federal Reserve Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency reiterate key concepts included in generally accepted accounting principles and existing ALLL supervisory guidance related to the ALLL and loss estimation practices. Regulators also remind institutions to follow appropriate risk-management principles in managing junior lien loans and lines of credit.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

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Attachment: [Interagency Supervisory Guidance \(201 KB PDF\)](#)