

Other Real Estate Owned (OREO)

Minutes

June 30, 2009

10am –12pm

1. Roll Call –

Stakeholders in attendance included 8 participants in person and 9 participants via telephone.

Prior to discussion Linda reminded the task force that in order to create a good solid rule for OREO it is important to share information on past experience with OREO, offer comments and ideas, ask questions, and continue to participate throughout the whole process.

2. Documents on the Web www.dfi.wa.gov –

The list of documents on the Web for the June 30, 2009, OREO rulemaking meeting:

- June 30 Meeting Agenda
- 2nd Discussion Draft OREO Rule
- Texas Admin Code – Rule 12.91
- Utah Admin code – Rule R339-6
- OTS Section 251 Real Estate Owned and Repossessed Assets
- Washington WAC 458-61A-208

3. Minutes –

The minutes from May 21 will be updated with a date correction and posted to the Web. The corrected version of the minutes were approved unanimously

4. Review second discussion draft –

The second discussion focused on the following topics listed below. (Comments and consensus included)

Definition of OREO

DCU will look at the GAAP definition to determine whether it will piggyback or create a new one for this rulemaking.

DCU may write an interpretive letter concerning credit unions using OREO for its own business needs. (Example: Use adjacent OREO property to expand credit union parking lot)

Recorded Amount of the Loan

One person suggested looking at GAAP for definition.

Holding terms of OREO

After much discussion the group narrowed down their decision based on draft alternative #1, #2, and #3, ruling out #4, #5, and #6. Holding terms for OREO will be similar to the following: *“Up to 5 year holding, with 5 additional years upon showing of good faith effort to sell and regulatory approval, using a form.”*

When does the holding period begin?

It was suggested that the definition in the second discussion draft be changed to: *“The holding period begins on the date that the credit union is entitled to take title of the OREO property.”*

What if the OREO is not sold within the initial holding period?

Joanne Conrad deferred this to a future discussion.

What basic standards are used to determine the initial and ongoing regulatory acceptability of holding OREO?

A look at the current credit union practices, statutes, and GAAP requirements, will be used to determine the minimum standards for holding OREO and where it fits in the rule.

Some of the current practices and comments discussed during the meeting included:

- Annual appraisals will be costly
- Use broker opinion on what's selling in the market place after initial appraisal
- Look at periodic appraisals vs. annual
- Appraisal requirements determined by value of OREO
- BPO's tend to be over-inflated
- Is there a GAAP appraisal requirement at time of foreclosure?
- Use Broker Price Opinions in addition to or as an alternative for appraisals

What accounting procedures and standards are state-chartered credit unions required to follow when accounting for OREO?

The group decided to keep the text for accounting to a minimum in the OREO rulemaking and will likely refer to the GAAP accounting standards unless otherwise noted. However, the guidance will contain more detail, possibly in bullet format, to assist credit unions with less OREO experience.

Can charge offs or special reserves be required for OREO property?

Yes, RCW 31.12.545(2)(c)

How will "Materiality" be determined for OREO accounting purposes?

Rather than leaving this open to discretion it was suggested that the GAAP standards will always apply.

5. Action Item for next meeting (June 30, 2009) –

Review Documents on the DFI Website

Review GAAP for definition of OREO

Review GAAP for Recorded Amount of Loan

Review GAAP, statutes, and CU common practices to determine the initial and ongoing regulatory acceptability of holding OREO

6. Next task force Meeting: July 30, 2009 – 2pm-4pm

Meeting Adjourned 11:30 am